



## Economic incentives

### Overview

A video registration of the plenary session of this workshop can be viewed [here](#).

"Incentives for circularity are currently nothing like strong enough to shift towards a circular economy (CE). Without incentives for circularity, the circular economy (CE) will not happen. When someone says they want a CE, ask them what new incentives they will introduce to achieve it" - **Professor Paul Ekins, UCL Institute for Sustainable Resources, University College London.**

There are only three sorts of incentives to increase circularity:

1. Demand creation (DC)
2. Pricing (increasing/reducing the price of less/more circular products and processes) (P)
3. Regulation mandating more circular products and processes (R)

### Examples of incentives

- DC: Green and Circular Public Procurement (GPP)
- R/P: Extended Producer Responsibility (ERP) incorporating all external costs into the price of specific product groups
- P: A tax shift from labour to resources
- P: No or low VAT for circular products and services across the EU
- P: CO2 pricing making CO2-intensive products more costly
- R: Add mandatory recycled content for specific product groups
- DC: Additional demand-side incentive beyond GPP

# Obstacles to implementation and potential solutions

- Competitiveness: rebates, free allowances, border tax adjustments
- Administrative complexity: instrument design
- Information: mandatory disclosure, information technology, block chain, labelling
- Fairness/justice: public deliberation
- Lobbying by incumbents: countervailing interest groups
- Different national contexts: administrative flexibility
- International trade rules: allowing measures based on process and production methods where these rules relate to global externalities
- Evaluation of external costs: approximation, low is better than none

## Challenges

- Removing the current economic incentives that form obstacles to implementing the circular economy. At the moment the fossil fuel economy is still being subsidised while economic incentives to strengthen the circular economy are not nearly strong enough and hardly increasing.
- What steps and measures would be required to make economic incentives work in practice?

### EU level

- Keep communicating the need for economic incentives to member states in the context of the European Green Deal and the Circular Economy Action Plan
- limited agreements needed;
- strong, clear and effective regulation, implementation and enforcement.

### Member State level

- how to spend taxes? (compensation);
- compensation for producers on other taxes (e.g. tax credits, etc.).

" involving citizens in Extended Producer Responsibility governance is key to include social and environmental criteria." - Romina Giovannetti, Ecoembes

" We would need agreements between Member States regarding taxation of virgin resources, which is a national competence and not yet developed. The idea behind it is to incentivise recycled resources. Another issue is how to spend the tax revenues." - Amélie Vaz, INE

"Currently, lowering VAT is forbidden for most economic activities. At the same time, if you ask entrepreneurs in the green sector, they will say that one of the most useful measures for them would be to lower VAT. The only other way to incentivise them directly is EPR with a low eco-modulated fee. " - Arthur ten Wolde

"Carbon border tax implementation is very important. The revenues should go to the country which implemented the green solutions" - Joanna Kulczycka

"The European Green Deal calls for shifting the tax burden from labour to pollution – and work on ETD and CBAM" - Astrid Ladefoged, DG Environment, European Commission  
Read more: [Tax Action Plan](#)

Arthur ten Wolde shared a poll, where a tax shift from labour to resources has the largest potential to foster a low-carbon economy, according to the workshop's participants, with CO2 pricing ranking second.

"Lack of definition of circular products, monitoring tools and fear of litigation are the biggest obstacles. Based on existing good practices, procurers should just start doing it." - Valérie Plainemaison, on circular procurement.

"Would the end of the unanimity rule at EU level for taxation-related matters help?" - Stefan Arditi

"Some manage to raise +10% of their total tax revenues from green tax measures – imagine what you could do!" - Astrid Ladefoged, DG Environment

## Main messages

- Many challenges: practical, political. One overarching issue is taxation, which is a national competence, but Member States are looking to the EU to prevent carbon leakage.
- There are many instruments: from taxation on labour to taxation on resources.
- For EPR we need to harmonise at EU level.

## Success story

Sweden: tax on the use of new aggregate materials (construction)

