#EUCircularTalks

TRADE, RESOURCE EXTRACTION AND CIRCULAR ECONOMY

REPORT

MAR - APR 2021
In March and April 2021, the #EUCircularTalks raised attention to the issue of trade, resource extraction and circular economy. Linking the UNEP-IRP report Sustainable trade in resources to the EU’s Trade Policy Review triggered an interesting debate. This output document contains:

- The policy recommendations from the UNEP-IRP report Sustainable trade in resources
- A summary of the presentations given during the webinar on 16 of March 2021
- A summary of the main issues raised during the discussions at the webinar and on social media and the European Circular Economy Stakeholder Platform’s discussion forum.

We would like to thank all speakers and participants for their valuable contributions to this #EUCircularTalks. We hope that this #EUCircularTalks can inform ongoing discussions both at EU and international level, e.g. conversations on the international dimension of the Circular Economy Action Plan, discussions on the enforcement of trade and sustainability chapters in the EU’s Free Trade Agreements and the 12th ministerial conference of the WTO later this year.

## Policy recommendations from the UNEP-IRP report Sustainable trade in resources

### Enhance alignment between international trade and environmental legal frameworks

- Enhance the understanding of ways in which the circular economy can create viable inputs of resources for value chains and reduce the environmental impacts associated with resource extraction.
- Adopt a systems approach to trade and the environment. This requires better understanding the impact that transitioning to a circular economy will have on trade flows, especially with developing countries, to clarify how these countries can leverage opportunities and mitigate any challenges.

### Align trade agreements with domestic environmental policies and priorities

- To leverage the opportunities and mitigate any challenges associated with the circular economy, developing countries should proactively study the impact and identify leverage points.
- Resource-dependent developing countries should be proactive about aligning trade agreements to economic diversification strategies that shift away from dependence on primary materials.
- Ensure that trade agreements move towards a circular economy that is inclusive of developing countries
- Integrate support for circularity initiatives into development assistance, such as Aid for Trade. This could be harnessed to help countries transition to resource-efficient, more circular economies as well as adjust to the risks and opportunities posed by circular economy policies in the economies of major trading partners.

### Ensure that trade agreements move towards a circular economy that is inclusive of developing countries

- Integrate support for circularity initiatives into development assistance, such as Aid for Trade. This could be harnessed to help countries transition to resource-efficient, more circular economies as well as adjust to the risks and opportunities posed by circular economy policies in the economies of major trading partners.
- Ensure that discussions about the circular economy at the World Trade Organization and other international fora take account of the interests and concerns of developing countries.
• Consult and share information with stakeholders about new circularity measures. Ensure that reasonable time is given to enable stakeholders to adjust, and that adequate assistance is provided to developing countries to support their adaptation.

• Enhance international dialogue and cooperation in an effort to better understand and respond to the distributional impacts of circular economy policies.

Proactively use regional trade agreements to advance circularity and reduce demand for primary raw materials

• Leverage trade and other international agreements to strengthen environmental management and governance of material resource extraction.

• Integrate meaningful provisions directly related to circularity in trade agreements and ex-ante trade impact assessments and ensure that these are fully implemented and the impacts monitored.

• Include provisions both within and outside environment/sustainable development chapters that promote resource efficiency. For instance, this could include provisions on technical standards, subsidies and market access.

• Ensure alignment of trade agreements and environmental commitments related to circularity. Specifically, ensure that commitments made under the Basel Convention are not undermined by trade agreements.

• Explore ways in which trade agreements can be used to disincentivize harmful fossil fuel subsidies, while incentivizing trade in renewable products.

• Leverage trade agreements to alleviate barriers to trade and investment in environmental goods and services to ensure diffusion of the best-available environmental technologies.

• Advance dialogue and research about additional creative ways to enhance the link between trade and the circular economy to minimize the environmental impact associated with the resource extraction of primary raw materials.

Advance the development of international standards for circularity

• Push for the harmonisation of definitions and classifications related to waste and treatment practices. Clarify when and following what processes waste becomes a secondary material. This will be crucial to enable especially developing countries to know what kind of material resources are being imported, and to prevent these countries from becoming the world’s waste basket.

• Support the finalization of the ISO international standard for the circular economy, giving due consideration to the potential wider impacts of such a standard and indicators for monitoring. This is especially important for developing countries, as they wish to engage in the standard-development process.

• Adopt global recyclability and eco-labelling standards and set international and national resource efficiency targets.
#EUCircularTalks Webinar: Trade, resource extraction and circular economy, 16 March 2021

Moderators: **Sofie Bouteligier** (OVAM)  
**Francesca Carlsson** (EEB)

Panellists:  
- **Christina Bodouroglou** – IRP Secretariat, UNEP  
- **Colette van der Ven** – UNEP Consultant, International trade lawyer, Founder & Director of TULIP Consulting  
- **Madelaine Tuininga** - European Commission, DG Trade: Head of Unit – Multilateral Trade and Sustainable Development Policy, Green Deal, Conflict Minerals

Christina Bodouroglou and Colette van der Ven presented the UNEP-IRP report *Sustainable trade in resources*. The first part of the presentation focused on the methodological underpinning of the report and revealed data on international trade in resources, materials embodied in trade, the physical and raw materials trade balances and their distribution, and the environmental impacts of extraction and trade. The presentation showed that addressing the environmental and distributional consequences of trade, will require a global transition to more sustainable and circular patterns of consumption and production. According to the International Resource Panel, the adoption of resource efficiency and sustainable consumption and production measures could reduce global resource extraction by 25%, lower GHG emissions by 90%, and increase economic activity by 8% by 2060.

The second part of the presentation paid attention to the role of trade and trade flows in a transition to a more circular economy. Both the anticipated shifts in trade resulting from a transition to a circular economy and the interdependencies between developing countries and global value chains were addressed.

In particular, the presentation shed light on how regional trade agreements could be used as circular enablers and on the role of the WTO.

Madelaine Tuininga presented the EU’s *Trade Policy Review* with particular attention for the green dimension of this policy document. The three objectives of the EU’s Trade Policy Review are:  
- Supporting the recovery and fundamental transformation of the EU economy in a way that is consistent with our green and digital ambitions.  
- Shaping global rules for a more sustainable and fair globalisation.  
- Increasing our capacity to pursue our interests and enforce our rights, autonomously if necessary.

The green dimension of the EU’s Trade Policy Review encompasses:  
- Bring forward climate and sustainability WTO initiatives.  
- Seek a commitment on climate neutrality among G20 Members.  
- Free Trade Agreements as platforms for cooperation on climate, biodiversity, circular economy, pollution, sustainable food systems.  
- Paris Agreement as an essential element of our Free Trade Agreements.  
- Bring forward climate and sustainability WTO initiatives.  
- Seek a commitment on climate neutrality among G20 Members
This part of the output document gives a summary of the main issues raised during the discussions at the webinar and on social media and the European Circular Economy Stakeholder Platform's discussion forum.

Data and methodological underpinning of the UNEP-IRP report

Several questions for clarification were asked regarding the data and methodological underpinning of the UNEP-IRP report Sustainable trade in resources. UNEP IRP provided answers in writing to these questions, which you can find below.

How easy was it to gather this data and how was the environmental burden calculated?

The data derives from the International Resource Panel's (IRP) global material flow database. This calculates raw material equivalents of trade flows for the period 1990-2017 using the global, multiregional input-output framework Eora, developed by the University of Sydney and a new global material extraction satellite data set detailing 42 material extraction categories for every country in the world. Standard input-output analytical procedures based on the conceptual framework developed by Leontief (1974) are applied [for more information see 2016 IRP Global Material Flows report].

Calculation of the raw material equivalent of trade flows includes the additional raw materials used in the extraction and production of traded goods but left behind as wastes and emissions in the exporting country.

In this manner, they reveal the real contribution of trade to material exploitation, and can thus serve as useful proxies for the ecological impacts of trade.

Have you analysed the potential impact of relevant increase in reuse and repairing could have in resources trade?

The International Resource Panel (IRP) has not undertaking modelling analysis to project the impact of adoption on circular economy policies on future trade patterns. It has, however, undertaken such analysis to assess the impact on levels of material extraction. Modelling included in the IRP Global Resources Outlook 2019 finds that a combination of resource efficiency policies, climate mitigation and carbon removal policies could slow down global resource use while still increasing human well-being and decreasing environmental impacts. In 2060 we could have an 8% increase on global GDP, 25% less global material extraction and 90% less GHG emissions as well as 9% less agricultural land, 30% less global pasture land and 11% more forest land compared with historical trends.

The UNEP-IRP Sustainable trade in resources report does consider the economic implications for low-income, resource-dependent countries of reducing future resource demand through resource efficiency and circular economy strategies. It notes that a circular economy transition can create opportunities for developing countries in terms of environmental, economic and job creation benefits. At the same time, the transition may also imply loss of export earnings for low-income resource dependent exporting countries– and creating both a need and an incentive to diversify the economy and, in some cases, implement appropriate compensation and adjustment measures for the parts of the population most affected.
Governance strategies would be particularly needed to capture a greater share of value and diversify into emerging sectors such as sustainable agriculture, recycling and renewables. At the international level, this will require, at a minimum, targeted capacity-building and development assistance and affording or maintaining sufficient policy space to use a wide range of policy instruments to support green local industries.

Did you consider a circular economy rebound effect in your study? If yes - in what way?

Yes, the modelling analysis included in the IRP Global Resources Outlook 2019 report – which finds that under the Towards Sustainability scenario, the adoption of resource efficiency and sustainable consumption and production measures could reduce global resource extraction by 25%, lower GHG emissions by 90%, and increase economic activity by 8% by 2060 – does take into account the rebound effect. The analysis recognizes that resource efficiency policy measures lead to a reduction in resources needed per unit of output, thereby reducing the overall amount of resources used and leading to an overall reduction of supply costs. This cost reduction causes a ‘rebound effect’ that offsets the achievements of resource-efficiency policies, thereby pointing to the need for additional policies to counteract this effect. To manage the rebound effect, the analysis assumes that a range of policies are implemented to ensure resource scarcity is reflected in economic decision-making, including avoiding environmental damage from resource extraction (such as mining), use and disposal. These policies are modelled as a progressive increase to the cost of resource extraction, encouraging more efficient use and higher recycling rates, through a modest shift of taxation from income and consumption (including wages, payroll and sales taxes) to resource extraction.

Aligning standards

Several comments and questions related to the need for a common understanding and avoiding a proliferation of definition, standards and labels. This relates, for example, to the importance that the harmonized systems used to classify goods differentiates between waste and scrap and secondary materials, but also between different types of waste (e.g., waste that is easy to recycle, and waste that is difficult to recycle).

Another issue concerns the heterogeneity of environmental standards that are emerging, which could constitute a non-tariff barrier to trade. From the discussion, it became clear that alignment and coherence are seen to be key. This requires cooperation throughout value chains, avoiding that different policy initiatives are leading to contradictory or partial incentives and investing in capacity building. It also requires leveraging legal concepts such as harmonization, equivalence, and mutual recognition.

Linking the raw materials and circular economy debates

The point was raised that circular economy thinking needs to extend to extraction. In its reports, the International Resource Panel has looked at projections towards material resource use and discussed practical actions to improve the international governance architecture for mining to enhance its contribution towards sustainable development. At UNEA-4, a resolution in mineral resource governance was adopted, which started a year long regional and global consultations. Further, the International Resource Panel has pointed out that a fundamental change in how natural resources are used around the world is necessary to succeed.
Due diligence

Due diligence, transparency and traceability were highlighted as key issues in global value chains. Apart from existing international due diligence initiatives (ILO and OECD), the European Commission will launch a proposal for a directive on sustainable corporate governance in 2021. This initiative aims to improve the EU regulatory framework on company law and corporate governance. It would enable companies to focus on long-term sustainable value creation rather than short-term benefits. It aims to better align the interests of companies, their shareholders, managers, stakeholders and society. It would help companies to better manage sustainability-related matters in their own operations and value chains as regards social and human rights, climate change, environment, etc.