



Circular business

What companies
need to make the
switch

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Authors

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The analysis and recommendations are solely those of Green Alliance and do not necessarily reflect the views of the Circular Economy Task Force members.

Circular Economy Task Force:



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Summary

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Circular business models cut carbon, create jobs and boost economic growth.”

The UK is in urgent need of strategies to increase long term economic vibrance and resilience, with the OECD predicting it will experience the lowest growth of any G20 economy, barring Russia, in 2023.¹

One answer to this is the circular economy. Circular business models cut carbon, create jobs and boost economic growth. They do this by breaking the link between new business and consumer activity and new resource use. Instead, they involve economic activity and value creation that keep existing products and materials in circulation for much longer.

Yet this opportunity is, by and large, overlooked. A few leading companies are dipping their toes in, trialling takeback schemes for reuse, resale and rental; but, in general, the environmental and economic advantages of circular business models are not yet being fully embraced by most companies.

We wanted to find out why.

We decided to get a view from the inside, from businesses themselves, by seeking candid, anonymous insights from senior company representatives and experts in three important sectors: electronics, fashion and textiles, and construction products.

Here is what they told us:

Carbon reporting and targets are already driving greater circularity, but economy-wide incentives are lacking.

Firms that have opted to make carbon reductions are actively influencing their clients and suppliers to adopt circular business models, but they need more government support.

A few companies are finding growth opportunities in switching to circular business models, but the economic benefits are not widely understood.

Increased awareness of supply chain risks is a factor motivating companies to move more quickly to circular business approaches.

The companies we spoke to faced a variety of challenges, but a common theme was a desire for the government to level the playing field for those trying to do the right thing on climate change and resource use.

By setting clear, standard requirements, the insiders we spoke to believed that policy could go a long way to building much greater demand for circular products and services, and ensuring that innovation and competition drives down costs as well as supporting greater quantity and quality of what's on offer.

On the basis of our conversations with businesses, we recommend that the government takes the following four concrete actions to move business models firmly into the mainstream. This will have the triple benefit of encouraging growth, improving economic security and reducing carbon emissions. It should:

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A common theme was a desire for the government to level the playing field for those trying to do the right thing.”

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Those struggling with the cost of living can be helped by making sure products last longer, are reusable or can be used more efficiently and economically.”

Introduce embodied emissions reporting and circular economy statements as part of the Green Finance Strategy. The government should require mandatory disclosure of scope 3 emissions by large, listed companies from 2024, including those embodied in purchased goods and services. In addition, companies’ mandatory transition plans should include a statement on how they will cut emissions through greater circularity. These requirements should be extended to more companies over time.

Standardise emissions accounting. Sectors should be convened to agree standards and produce up to date, accessible data to accelerate progress at home, while pushing for ambition through international working groups.

Stimulate circularity through planning rules. Whole life carbon emissions and material use should be assessed at the planning stage of all public and private construction and infrastructure projects over a given size, by 2025, as recommended by the Climate Change Committee (CCC). This could be achieved through current reforms to the planning process.

Strengthen reporting requirements for large public contracts. Public procurement guidance should be revised so suppliers have to submit a carbon reduction plan addressing all associated emissions, including those embodied in purchased goods and services.

Those struggling with the cost of living can be helped by making sure products last longer, are reusable or can be used more efficiently and economically through leasing. Industry wants to make the move to circular products and services but, as we reveal in this report, the government needs to exercise its powers to kickstart market development.

Why isn't the circular economy cutting through?

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The benefits of a circular economy are already tangible in the UK.”

Developing the circular economy is an underutilised solution for the UK's net zero transition and post-Covid economic recovery. Green Alliance and others have shown that efficient and productive use of resources in a circular economy simultaneously supports economic growth, creates jobs and cuts carbon emissions.²

Circular business models, where goods and materials have their productive lives extended through takeback for reuse, repair, remanufacturing and eventually high quality (closed loop) recycling, are central to this.

The latest International Panel on Climate Change (IPCC) report places new emphasis on the need to rethink how goods and services are provided, including by using policy to build demand for “sustainable consumption by intensive use of longer-lived repairable products”.³

The CCC has similarly acknowledged that the transition to circular goods and services must be part of the UK's path to net zero.⁴

Why going circular matters

Extraction and processing of resources is associated with around half of greenhouse gas emissions globally, but the impacts of mining, growing and making things out of raw materials go far beyond carbon. According to UNEP, they also cause over 90 per cent of nature loss and water scarcity, with negative impacts on local communities and biodiversity alike.⁵

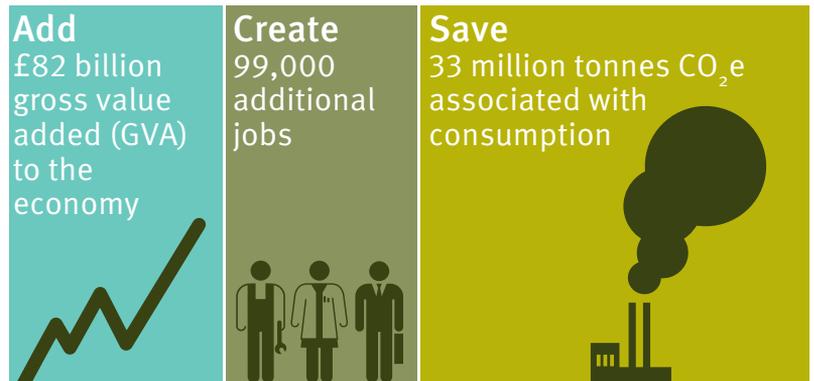
Recent work by WRAP, published in 2021, found that the benefits of a circular economy are already tangible in the UK. Between 2014 and 2019 it created at least 90,000 jobs, alongside carbon savings and additional economic value. In England's case, most jobs were not in recycling but in

circular business activities higher up the waste hierarchy, such as repair and reuse. WRAP predicts significant economic and climate mitigation opportunities from circularity in the coming decade, if effective policies are introduced.

By 2030, with the right policies, the circular economy could⁶ ...

“

Visible benefits of recorded circular business activities are only the tip of the iceberg.”



The true potential to create jobs and growth is higher than modelling by us or WRAP indicates, as information available is hampered by clumsy industry classifications which fail to capture partial transitions within businesses, or the range of ‘invisible’ circular businesses popping up, classified generically as sales, logistics, IT or charities. Visible benefits of recorded circular business activities are only the tip of the iceberg.

Why reuse is better than recycling

The potential of the circular economy is not being developed fast enough, despite widespread understanding that the 2020s will be a critical decade for climate action. Resources and waste policy in England is stubbornly focused on recycling which, while essential, has fewer environmental and economic benefits than keeping products in use as long as possible.

When an item is recycled, it typically goes through an energy intensive process to revert to raw materials, which then have to be manufactured into new products from scratch. By contrast, when an item or its components are

reused, by the original manufacturer or someone else, much less processing is involved and the environmental footprint is far lighter.

Reuse can also offer profitable business models and generate social value. If an item is returned for reuse, whether through remanufacturing, resale or rental, it can avoid the need for new production while still generating value for British companies.

Businesses are familiar with recycling, though many have also implemented resource efficiency strategies that save money through incremental waste reduction. Some are exploring ways to substitute high impact materials for lower impact ones; however, all too often, this is driven by consumer perception of what is environmentally preferable rather than rigorous lifecycle analyses.⁷ These resource efficiency measures can be incorporated into a linear business model but, while they can be helpful, they perpetuate the link between business growth and material use.

Relatively few businesses have adopted more transformative, circular business models (see page eight). By reducing reliance on raw materials and new components and products, they can help to break the link between business growth and environmental impacts. Product design for longevity, reparability and disassembly enables circular businesses. But circular approaches also entail disruptive changes to sales and service delivery models.

**“
Product design
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businesses.”**

What are circular business models?

Here we define some commonly used terms but, in practice, distinctions are blurred between different circular business models, and terms such as ‘reuse’ can have different meanings.

Circular business model	How it works
Reuse and resale	Products are collected, cleaned and used again in their current form, sometimes with light repairs, eg glass milk bottles, second hand clothes and books
Repair and refurbishment	Products may need significant repairs, upgrades or data cleaning, and may be given a new warranty, eg damaged clothes, reused mobile phones or data servers
Remanufacturing	Products are broken down into their components which are cleaned, repaired where necessary and reassembled, sometimes in combination with new parts, to make products at least as good the original that may come with a new warranty
Rental, leasing and servitisation	Companies retain ownership of, and responsibility for, the product and provide it to customers as a service, eg car clubs, formal wear hire, office lighting systems

Some incumbent firms are testing the waters around these models, running pilots on limited product lines or for specific customer groups.

The view from the
inside

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We talked directly to businesses about their experiences.”

We wanted to find out why circular business models struggle to hit the mainstream. We have gone beyond cold statistics and talked directly to businesses about their experiences of grappling with these decisions.

We spoke to large incumbent firms experimenting with new business models, as well as smaller suppliers in circular businesses seeking to scale up. We also interviewed sector experts from industry associations, consultancies and academia, for wider perspectives on the issues.

For candid insights, the twenty business insiders and experts spoke to us anonymously. Our interviewees represented large brands, retailers and small suppliers of goods and services in three key sectors: electronics, fashion and textiles, and construction products. These are three of the highest impact sectors in terms of carbon and material use in the UK, and so represent important opportunities to change how products are accessed and used.

We asked our interviewees:

- if they saw the carbon and economic benefits of circular business;
- why circular business models struggle to scale up, despite the advantages;
- how the government could help to drive innovation and develop markets for circular goods and services.

We have used their responses to bring the challenges to life, and draw out common themes to recommend policies to speed up the UK’s transition to a circular economy.

As we have highlighted, both the IPCC and the government’s own advisers, the CCC, have made it clear that this has to happen and soon, as an important solution to the climate crisis.

What businesses and experts told us

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It will be impossible for the NHS to reach its 2040 net zero target without adopting circular economy practices.”

Achieving net zero requires circular business

Measurement reveals the scale of the problem

Companies told us that it was not until they started to measure their full value chain emissions, known as scope 3 emissions (see page 14), that they realised how much of their carbon footprint came from the materials, goods and services they buy. Value chain emissions are, on average, 11.4 times higher than direct operational emissions, according to CDP, and in many cases the majority of these are embodied in their purchases.⁸

“Our company has targets for cutting emissions so, even for the teams working on the circular economy, carbon is a preoccupation. We use carbon as reason to go further on circularity, and circular materials as a tool to reduce our carbon footprint.”
Construction firm

Before this realisation, firms tended to view the circular economy in terms of waste reduction or resource efficiency. After, they understood that greater ambition and more transformational approaches would be required, such as buying or selling reused products, or introducing leasing schemes. This is reinforced by a recent study, which found that it will be impossible for the NHS to reach its 2040 net zero target without adopting circular economy practices, including in procurement.⁹

Once an organisation sees data on the size and origins of their value chain emissions, it drives a change in perspective. Greater ambition on the circular economy becomes necessary to meet carbon targets.

“

In London, planning applications now require whole lifecycle carbon assessments for proposed developments.”

“We definitely see circularity as an important enabler of reaching our net zero goals. A more circular economy is a key way for industry and society to reduce our emissions.”

Major retailer

Emissions reporting drives change

We heard that mandatory requirements and voluntary commitments to bring down emissions along the value chain are driving up demand for circular goods and services. In London, planning applications that go via the mayor now require whole lifecycle carbon assessments for proposed developments, along with plans to cut emissions. Several of our interviewees in the construction industry pointed to this as a factor behind rising demand for circular products in their sector.

“We’ve seen a change, embodied carbon is now a big driver for architects and designers because of the reporting requirements for projects in London. Clients now want us to take items back, refurbish, remanufacture and refit. The embodied carbon is 70-80 per cent lower for reused items.”

Construction products supplier

No country has yet set mandatory requirements for scope 3 emissions reporting, but strong voluntary action from large suppliers is driving the supply of, and demand for, circular goods and services. Businesses that had voluntarily

committed to ambitious carbon reductions along their value chains told us they were actively working to influence their clients and suppliers to adopt circular products and practices.

Accessing enough used inputs for remanufacturing or resale can be a challenge and requires a proactive approach from buyers. On the sales side, client education on the benefits of these activities is needed. One refurbished electronics company was trying to start this conversation with clients. They said “We want to make carbon savings a sales message, so we’ve put together embodied carbon profiles for our products, showing how much has been saved compared to a new product.” Their business clients increasingly consider sustainability in procurement, but most have not set net zero targets or made the connection to circularity.

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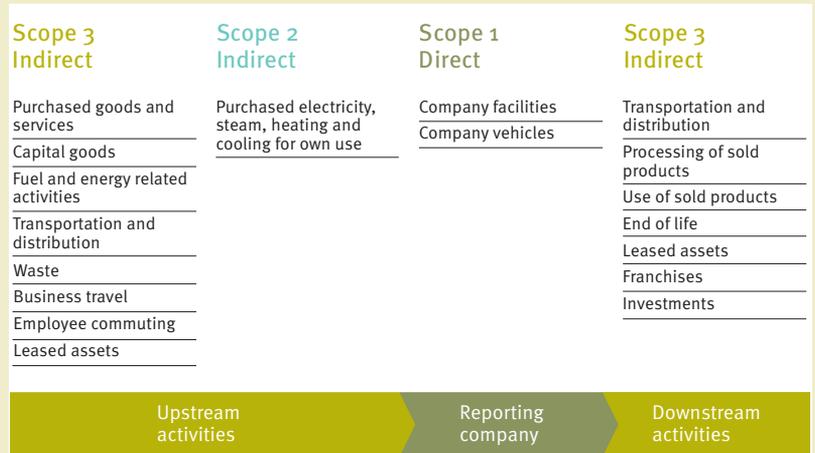
Accessing enough used inputs for remanufacturing or resale can be a challenge.”

Businesses want government support

An insider from a top construction company said, “There’s been very strong supplier engagement, a real hunger to understand what they need to do. But it’s clear they need government support, and it keeps coming through that legislation on the circular economy would be a significant help.”

Carbon related policy incentives would be welcomed by the companies we spoke to. As the spokesperson for a large construction products firm put it, “We can’t keep operating in the way that we are. If the government were to require mandatory reporting on scope 3, it would, without a doubt, drive this change.”

Business carbon emissions explained¹⁰



Scope 1 emissions are direct, from a company's own operations, such as offices or factories.

Scope 2 emissions are indirect, from the energy they purchase to power their offices or factories.

Scope 1 and 2 emissions together are sometimes referred to as 'operational emissions'.

Scope 3 or 'value chain emissions' are also indirect, but are generated beyond a firm's own operations as a result of its activities. They range from materials extraction, through production and transportation of components, and the energy consumed while products are in use, to the final disposal of products.

If every company in the world cut their scope 1 and 2 emissions, none of them would need to tackle scope 3 emissions. In reality, to secure rapid change, it is necessary to target those companies with the capacity to act now. Some actors in the supply chain will have more incentive or power to act than others. Product design and procurement specifications can constrain or enable suppliers.

The principle that large companies and brands can influence, and should take some responsibility for, the sustainability of their supply chains is well established.

Companies see growth opportunities in the circular economy

Financial advantages

Businesses reported that the ‘unit economics’ (ie how much value each individual product adds to the business) for some circular models can be better than traditional production and sales. Rental models allow more value to be added over time from each item bought or made. Reuse and resale can be more profitable, even when products are sold at a lower price than new ones, as input costs are often low, or even negligible where they save the previous user disposal costs.

“Reuse and resale can be more profitable, even when products are sold at a lower price.”

“We decided to specialise in refurbished electronics because demand soared during the global financial crisis as businesses looked for cost savings. We didn’t realise until later that we were a circular business. In a circular model the original owner, the refurbisher and the end customer all do much better as each get better value than the alternative.”

Refurbished electronics supplier

“Resale is growing fast as brands are realising they can monetise existing stock.”

Circular fashion services supplier

The economic benefits are not yet widely acknowledged, according to interviewees who were trying to convince their company or clients to adopt servitisation and takeback models. This is, in part, due to financial and accounting norms.

**“
Not all corporate
sustainability
teams have the
clout to make such
deep changes.”**

“On a recent proposal, we talked to the procurement team about how ongoing maintenance costs would be spread over a number of years through servitisation, where the capex could be amortised over a number of years rather than all upfront. This unexpectedly caused a problem, as capex and maintenance budgets are dealt with in different departments, don’t talk to each other and can even be in competition for budget. This demonstrates what a big behavioural change is needed within firms and their accounting processes to move to new ways of recognising value.”

Major construction firm

One business leader observed that in the current policy environment, not all corporate sustainability teams have the clout to make such deep changes to traditional modes of operation.

“
Suppliers are
starting to use
carbon savings as
a selling point.”

Business to business opportunities

Companies saw significant growth opportunities from circular models, particularly for businesses that supply other businesses (B2B). Renting rather than selling products enabled some to reach customers, such as small and cash poor businesses, who otherwise could not afford to access them. It also allowed them to build repair and product takeback into contracts, facilitating reuse, refurbishment and remanufacturing, all of which cut production costs by reducing outlay on new inputs. Some businesses used takeback schemes as an opportunity to build brand loyalty by offering lower prices.

“Leasing makes our products affordable to businesses who wouldn’t have the budget to buy them outright”.
Household appliance manufacturer

As more companies commit to reducing their value chain emissions and factor it into their procurement decisions, suppliers are starting to use carbon savings as a selling point, giving them a foot in the door with new clients.

“The key is the loyalty that comes with reuse. If a customer returns an item to you, you can guarantee them the same material price for the life of the product and you can sell them recycled product at a discount. At that point no competitor can undercut you.”
Circular packaging service supplier

“

With sustainability being used as a marketing point, greenwashing is becoming a problem.”

“Healthcare clients have started to come seeking reusable rather than single use items, such as surgical gowns. We sit under scope 3 for them and this is an easy way of addressing that.”

B2B textiles rental sector representative

“Up to now, it was always about cost and if there was a carbon benefit, that was a perk. Now, we can actually walk into companies and start by saying we can reduce their carbon footprint. Once that’s got their interest, they will ask about the costs.”

Circular packaging service supplier

Circularity was not only a competitive edge in the B2B sector, companies also saw consumer demand for resale as a big growth area for fashion. A luxury fashion retailer described the appeal of resale for consumers as “rarity, lower price, lower environmental impact”.

Opportunities for growth could be captured by brands if they invested in resale, or by new circular businesses focused on repair, cleaning and digitising items for resale.

Getting accurate data to convey the environmental benefits of circular products to customers was seen as a challenge across the board. Several companies cautioned that, with sustainability being used as a marketing point, greenwashing is becoming a problem. They want help to develop standardised approaches, for example to compare product carbon footprints across new, leased and reused items.

Circular business models protect against supply risks

Disruption motivates change

Heightened awareness of supply chain risks motivates buyers and suppliers to shift to circular goods and services. This can offer greater business resilience by reducing dependence on imported items. Disruptions from Covid-19 and the war in Ukraine mean this is no longer an abstract concern, particularly in the electronics sector, and it is driving procurement decisions.

“
Heightened awareness of supply chain risks motivates buyers and suppliers to shift to circular goods and services.”

“Supply chain risks and fluctuating costs have strengthened the appeal of takeback and reuse. You can make huge savings in the cost of inputs, as well as in embodied energy.”

Construction products supplier

“From 2015-16 on, we’d enjoyed 25 per cent year on year growth. When Covid came, we hit a record 40 per cent growth across turnover, profit and staffing. We put that down to clients’ supply chain issues. Once people make that leap [to reused products], they usually return.”

Refurbished electronics supplier

“The more managers know about circular models, the more they’re interested, for environmental reasons as well as the rising cost of materials”.
Construction firm

**“
Businesses with
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Price stability

Businesses with established secondary supplies were able to offer customers greater price certainty in the face of volatile international markets.

Establishing reliable supplies of secondary products is not without its challenges, but companies in all sectors recognised the need to scale up takeback in the longer term to buffer against future supply shocks.

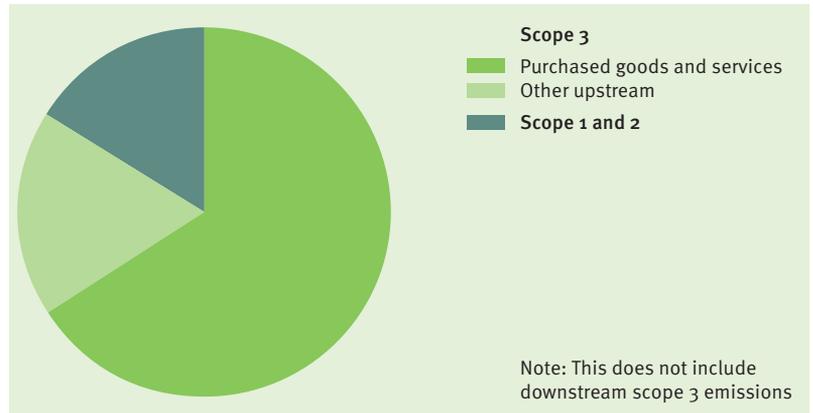
“We can provide clients with stability. You know what your packaging is going to cost you for the next ten years, and while it might vary slightly due to rates or energy prices, you’ve taken the fluctuation of commodity prices completely out. Thirty per cent of your cost is materials. You pay that once and then just reuse it.”
Circular packaging services supplier

“Without a doubt, we’ll draw lessons from the past couple of years on the benefits of the circular economy. We want to ensure that we’re getting more products back and using them efficiently, whether that’s through repairs or leasing. We can also use returned products as a supply buffer.”
Smart construction products company

Sector snapshots

Construction products

Purchased goods and services generate two thirds of one construction company's emissions



Remanufactured flooring has **75%** less emissions than new flooring

Carbon emissions arising from materials and products used in construction can dominate a company's emissions footprint. While a big chunk of this is in high volume, high impact building materials, such as concrete and steel, companies told us that the use of circular products, like reused floor tiles, ceilings or doors, can also reduce emissions significantly.

Of the sectors we spoke to, construction had the strongest awareness of the need to decarbonise and the potential for circular business models to help deliver that. To a large extent, this was driven by external reporting requirements on lifecycle emissions and circularity, such as France's emissions caps on new build and the requirement for certain planning applications in London to be accompanied by statements on lifecycle emissions and circular economy measures, including reuse. In London's policy microclimate, the market for circular products is developing so fast that suppliers of innovative circular products are struggling to meet demand.

“We get two to three queries a week about takeback schemes but can’t respond to them all.”
Construction products supplier

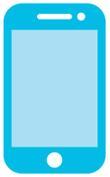
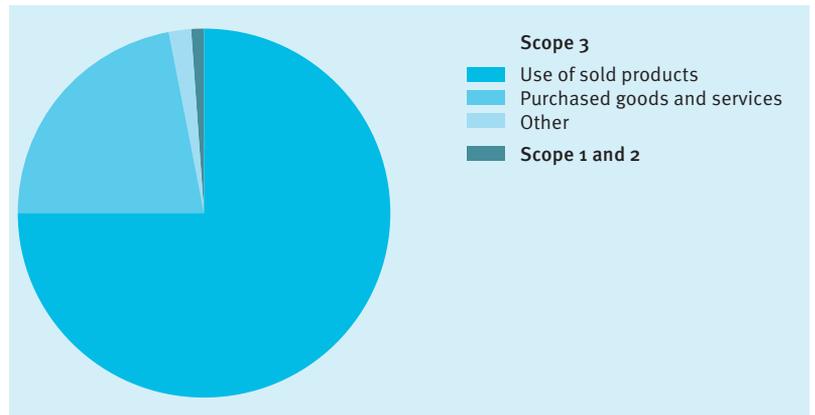
Small circular companies working to scale up supplies can struggle to access finance and face complex insurance and certification requirements, with existing schemes often not designed with reuse in mind.

The UK’s construction giants are just starting along the journey to set voluntary targets to cut their scope 3 footprint, but this has yet to mature to a point where significant impact is noticed.

An insider from one of the UK’s largest construction firms was blunt about the bigger picture for circularity in the sector, beyond large developments in London: “Reuse of products beyond aggregates isn’t happening to any extent yet. Circular products have to be demanded before we’ll see the full potential, but the clients need to be made to demand it.”

Electronics

The goods and services one domestic appliance manufacturer buys are its second largest source of emissions



Refurbished electronic equipment can save

99%
of emissions compared to buying new

The carbon footprints of companies producing electronics are often dominated by value chain emissions. Within these, the two largest sources are the in use phase of the products they sell and the goods and services the company purchases. Despite the potential for cutting carbon, the sector does not talk much about the benefits of circularity.

“Scope 3 isn’t normal parlance, but ocean plastics and packaging waste are”.
Electronics industry expert

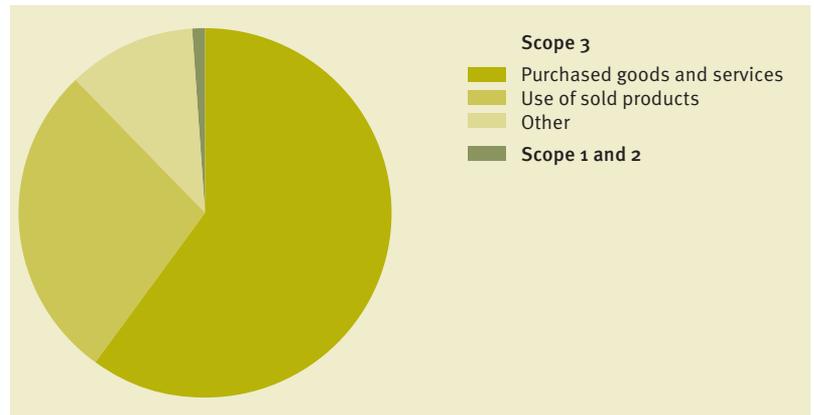
Circularity in electronics was primarily driven by concerns about waste and supply chain risks, according to insiders, with recent supply disruptions bringing this front and centre for many. Shortages of new items were leading clients to take the plunge into reused electronics, after which they found it hard to ignore substantial cost savings.

If more businesses were made to consider emissions from laptops and office equipment, demand for low impact circular products would undoubtedly rise.

Providers of circular electronics are starting to use carbon savings as a sales pitch, so are poised to provide the products, and data on embodied emissions, as demand rises.

Fashion and textiles

Sixty per cent of one fashion company's emissions come from the materials, goods and services they buy



Reusable hospital gowns save **92%** of emissions compared to disposable gowns

The materials, goods and services a clothing company purchases can be responsible for the majority of their carbon footprint. One way to tackle this head on is to adopt circular business models that ensure more efficient use, and reuse, of materials.

Circular clothing can lead to substantially lower emissions than linear, disposable options.

The industry is thinking about circularity. A leading luxury fashion retailer, working with a number of brands on circular models, told us it is “the new buzz word” in fashion. However, the carbon benefits are not yet well understood or communicated.

Companies are very aware of the environmental and social impacts of their supply chains, in terms of water use, pollution and working conditions. Circularity is part of the conversation on reducing waste from existing linear business operations, for example by recycling fabric offcuts.

However, businesses are, so far, struggling to switch to more transformational models of resale, repair and rental. An industry expert said the term circularity was being used in a “wishy washy way, when actually all they have done is use some recycled polyester in their garments”.

However, second hand sales are expected to take off in a big way, with one circular services provider predicting that:

“Resale will be bigger than fast fashion by the end of the decade”.
Circular services provider to fashion industry

This optimism was echoed by a luxury fashion retailer which had just started developing circular business models.

One nationwide retailer, currently in the process of mapping and setting targets for its value chain emissions, expected the footprint of purchased goods and services to dwarf its operational emissions and, as a result, they were already exploring more ambitious circular business models to tackle this huge carbon load.

What is driving circularity?

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Voluntary, internal targets on carbon, waste and the environment are supporting market development for circular goods and services.”

Companies in all three sectors we spoke to saw growth opportunities from a circular transition. Supply risk was a particularly strong demand driver in the electronics industry but was also a factor in the construction sector. Even in textiles, where it was not a current concern, businesses expected it to become an issue in future. Voluntary, internal targets on carbon, waste and the environment are supporting market development for circular goods and services across all the sectors, albeit to a limited extent.

However, carbon related measures are having a particularly strong impact on driving circularity in the construction sector. This is the only sector required to produce statements on embodied carbon and reuse to win business, and it is driving progress at pace. Interviewees gave us examples of companies developing new offerings and forming innovative partnerships in response to policy imperatives.

There is an opportunity to learn from the construction sector’s experience to foster a more rapid transition to circular business.

Factors driving circular business in three major sectors

	Construction products	Electronics	Fashion and textiles
External reporting requirements on carbon	■		
Internal carbon targets	■	■	■
Other internal targets on waste and environment	■	■	■
Commercial concerns about supply chain resilience	■	■	
Opportunities for business growth	■	■	■

What is holding circular businesses back?

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Brands, retailers and their clients see change limited by gaps in the business ecosystem.”

The circular economy could be at a tipping point. Small, innovative businesses are developing new models for circularity but are struggling to access the financial and other support they need to scale up.

Incumbent brands, retailers and clients see change limited by gaps in the business ecosystem, which need to be filled by those that can handle the logistics of reverse supply chains (to recover used products from end users), hygienic cleaning and digitisation of products for resale, and insurance and certification compatible with reuse.

Interestingly, one construction products company highlighted that there is latent energy in the UK market for circular products: “Some people here see the opportunity. The Netherlands are leaps and bounds ahead of us in practice, but some of the best ideas are coming out of the UK.”

Demand growth from forward thinking brands, retailers and clients who have already set in motion strict internal targets to eliminate value chain emissions is helping, but it is not enough to drive transformation across a sector at the pace needed to meet the UK’s carbon targets.

“Plans for cutting raw material consumption or consumption emissions need to be done at a sector level. You want to bring the whole industry forward, not just have one or two people moving alone. The whole industry needs to understand its role and responsibility, that’s how I hope the government will approach it”.

Smart construction products manufacturer

Quantification of value chain emissions is driving circular strategies in some cases, and data on embedded and lifecycle

**“
Many of those we
spoke to were
frustrated by the
lack of policy
support to develop
markets.”**

emissions is increasingly a competitive advantage for circular businesses. But most of our interviewees cited data and methodologies as a challenge, not necessarily the lack of them but the lack of clear guidance on which to use and how.

Many of those we spoke to, both from large companies and small suppliers, were frustrated by the lack of policy support to develop markets for circular goods and services and thought their businesses were being left to go it alone.

To tip the balance and set the UK on course for a rapid transition, companies want government policy to support demand, levelling the playing field for those forging the way on circular goods and services, supporting important simultaneous government missions on climate and growth, by setting out a direction of travel for all. Business insiders emphasised that this was the best way to harness the power of private sector innovation and competition.

“At the moment it still feels like companies like ours are having to lead the transition.”
Refurbished electronics supplier

“If everyone was doing their purchasing in the context of a mandated transition, that’s when competition and innovation would come in to bring down the costs of circularity.”
Smart construction products manufacturer

This echoes the findings of a study on best practice in corporate climate responsibility, conducted for the Dutch government, which also involved speaking to businesses, and found that “Companies frequently mentioned the need for more stringent policies ... to transform an entire sector.” The authors concluded that “ambitious climate action is constrained until national policy reaches the same level of ambition”.¹¹

The UK government’s level of ambition on the circular economy and value chain emissions need to catch up with the progressive firms already lighting the way.

How the government can help

“

An advantage of providing incentives for greater circularity through carbon requirements is that it is not overly prescriptive.”

As one business leader we spoke to said, “you only take action on carbon if you start measuring it”. Our conversations with leaders in the fashion and textiles, electronics and construction products sectors suggest that there is a large and mostly untapped opportunity to support the growth of circular business models. That potential is in boosting demand for circular goods and services, by increasing the visibility of value chain and product lifecycle emissions, and factoring them into decision making.

An advantage of providing incentives for greater circularity through carbon requirements is that it is not overly prescriptive, and offers organisations the flexibility to adopt business practices that have the most positive impact and relevance for their sector or product.

However, ‘carbon only’ approaches are not sufficient in all cases and will take time to show results beyond the largest firms. In the meantime, some more straightforward requirements, such as the publication of circular economy statements, can have a similar effect on driving demand for circular goods and services. As soon as a requirement of this kind is embedded in procurement or planning rules, it raises awareness and becomes a potential competitive differentiator.

Where government or corporate policies are already starting to drive change, macro level projections of the carbon and economic benefits of these new business approaches are borne out by evidence on the ground. Companies are finding growth opportunities that depend less on raw materials and are, consequently, less subject to the vagaries of global supply chains and commodity prices.

Yet, in the face of strong inertia, companies are being limited in their ability to scale up circular business models without government support.

**“
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Fair market conditions for those committed to circularity and pursuing the net zero goal would ensure that innovation and competition drive down costs and increase supplies of circular goods and services. This would expand access to low carbon products and ensure that circular models can also, over time, play their part in addressing the high cost of living.

Improving transparency helps markets to operate efficiently and builds economic resilience. The government has recognised this and has committed to increasing mandatory disclosure of environmental risks, including those in the value chains of UK companies. In his roadmap to sustainable investing, the former chancellor, Rishi Sunak, stated that “[i]nvestors and businesses must have the information they need to understand the full range of environmental risks they face and create”.¹² At the COP26 climate summit, he committed to a mandatory sustainability disclosure regime (SDR), expected to cover value chain emissions for large, listed firms. These firms would also be asked to publish transition plans from 2023.

Such measures could help to unlock the potential of circular business, but only if the requirements are clear enough about carbon emissions embodied in goods and services.

“Voluntary sustainability disclosures are widespread but often inconsistent; information from different organisations is not always comparable. There is a clear need for an effective government-led sustainability disclosures regime which enables the flow of comparable and decision-useful information”.

HM Government, 2021, *Greening finance: a roadmap to sustainable investing*

“
The government
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It is unfortunate that the government’s commitment has since wavered. The SDR did not appear in the Queen’s Speech in May 2022, although work is underway to standardise guidance on sustainability reporting.¹³

Experience from the EU, and the UK government’s own assessment, suggest that, in the absence of mandatory requirements, simply providing guidance is not enough to improve the quality and comparability of climate disclosures, which is essential to prevent greenwash.¹⁴

The government should now double down on its commitment to make London a world leading net zero financial centre and, at the same time, drive a circular economy throughout the UK, in turn reaping the rewards of long term economic growth, resilience and climate action.

To seize this opportunity, it should:

1.

Introduce embodied emissions reporting and circular economy statements as part of the Green Finance Strategy. The government should require mandatory disclosure of scope 3 emissions by 2024, including those embodied in purchased goods and services. In addition, companies’ mandatory transition plans should include a statement on how they will cut emissions through greater circularity. These requirements, which will initially apply only to large, listed companies, should be extended over time to private and smaller companies to ensure a level playing field.

2.

Standardise emissions accounting. Sectors should be convened to agree standards and produce up to date, accessible data to accelerate progress at home, while pushing for ambition through international working groups. Particular focus is needed on accounting benchmarks for circular products and services. The perfect should not be the enemy of the good; a flexible approach can be taken and methodologies improved over time as best practice develops internationally.

3.

Stimulate circularity through planning rules. Whole life carbon emissions and material use should be assessed at the planning stage of all public and private construction and infrastructure projects over a given size, by 2025, as recommended by the CCC. This could be achieved through reforms to the planning process as part of the Levelling Up and Regeneration Bill, which include reviewing the National Planning Policy Framework and replacing the EU system of environment impact assessments with Environmental Outcome Reports.

4.

Strengthen reporting requirements for large public contracts. Public procurement guidance (the national procurement policy statement and procurement policy note 06/21) should be revised, so suppliers bidding for major government contracts have to submit a carbon reduction plan addressing all associated emissions, including those embodied in purchased goods and services. The Public Procurement Bill, currently passing through parliament, offers an opportunity to strengthen the national procurement policy statement.

Many companies are already working hard to create more sustainable, circular business and now want the right incentives in place, to channel competition into increasing provision and cutting the cost of lower carbon goods and services. The government should accelerate and capitalise on this by pushing forward with its Green Finance Strategy and committing to lead through its powerful public sector influence.

Endnotes

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