Key points

The transition to a circular economy

Summary of the Social and Economic Council advisory report

May 2017

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SOCIAL AND ECONOMIC COUNCIL

Main points of the advisory report

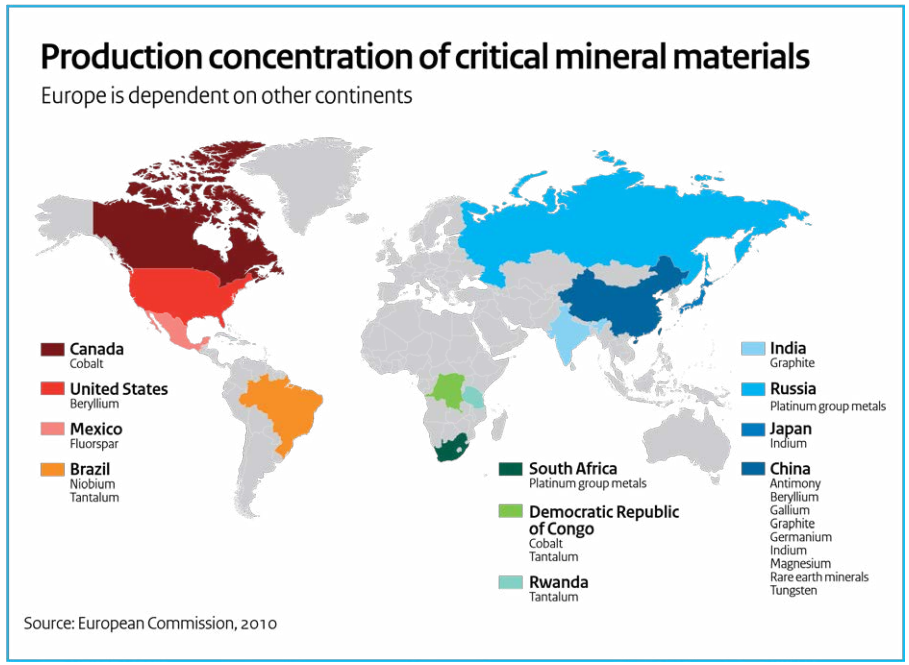
In its advisory report *Werken aan een circulaire economie: geen tijd te verliezen* (June 2016), the Social and Economic Council of the Netherlands (SER) stresses the urgency and necessity of working on a circular economy. The Council favours an ambitious transition agenda that goes beyond removing barriers and also capitalises on opportunities. This could make the Netherlands a worldwide leader regarding the circular economy in a number of value chains. In the SER's view, the best way to achieve this aim is to develop a coherent, government-wide strategy that involves enterprises, trade unions and other Civil Society Organisations (CSOs). The advisory report offers a number of guidelines in this regard. As such, it offered building blocks for a Government-wide Programme for a Circulair Economy (September 2016).

What is a circular economy?

The SER defines a circular economy as one that deals efficiently and responsibly with products, materials and natural resources in an effort to preserve material prosperity for future generations. A circular economy involves much more than efficient recycling. It starts with smart design that reduces the use of primary and secondary raw materials to a minimum and sees that they can be reused later, preferably without any loss of value. A circular economy can be regarded as responsible if it satisfies environmental and social requirements. The latter include the working conditions and employment terms under which raw materials are extracted and converted into products.

Urgency

The demand for raw materials has increased explosively in the past century, with the world population using 27 times more minerals, twelve times more fossil fuels, and 3.6 times more biomass in the twentieth century. This situation is untenable. The combined impact of the rising demand for raw materials by a growing world population, geopolitical tensions in source regions, the depletion of the earth's natural resources, and rapid technological advances (including robotisation) makes it all the more urgent to deal more efficiently with raw materials. Europe depends heavily on raw materials. For example, it imports 90 percent of its 54 most critical mineral materials from abroad, mainly from China.



Barriers

The transition to a circular economy will require far-reaching changes both in government policy and in the conduct of business owners, employers and the public. According to the SER, there are several types of barriers that impede the transition to a circular economy. The table on page 4 gives a few examples.

Examples of barriers	
Institutional	
Unlevel playing field	System is structured according to the principles of the linear economy.
Vested interests	The transition to a circular economy requires different business and revenue models and will generate transaction costs and uncertainty.
Focus on the value chain	Closed-loop cycles will require new alliances outside the traditional value chains.
Legislation and regulations	
Competition policy	Competition policy makes it difficult for enterprises to cooperate so that they can make optimal use of one another's residual flows
Waste is not considered a raw material	Legislation on waste hampers the collection and transport of waste across borders for circular use.
Tax legislation	The high tax on labour makes labour-intensive circular activities expensive.
Economic	
Externalities	Not including externalities in market prices leads to economic decisions based on the wrong market signals (i.e. low prices).
Price ratio	When raw materials are cheap, alternative (good quality) secondary materials cannot compete.
Insufficient effective demand	The market demand for secondary materials remains limited, making feasible business cases difficult.
Societal	
Little awareness	As there is little awareness of the added value of a circular economy, it is difficult to develop courses of action for consumers, business owners and employees.
Product appreciation	• People prefer a new product to an equally serviceable second-hand product. • Owning goods has a higher status than using without owning them.
Knowledge and innovation	
Knowledge gaps	• Circular design and eco-design are still in their infancy. • Not enough information available about the composition of secondary raw materials.
Innovation	• Little awareness that the transition to a circular economy requires differing forms of innovation: technological, financial (business cases), organisational (working methods), social (focused on cooperation and teamwork). • The financial arrangements for new circular revenue models, e.g. the 'product as a service' model, often cannot compete with linear revenue models.

Starting position of the Netherlands: vulnerabilities and opportunities

The Netherlands is vulnerable because it has an energy- and material-intensive export economy, one that will continue to depend heavily on primary raw materials for a considerable time. The Netherlands imports 68 percent of its raw materials. Vulnerable sectors include the agri-food sector, some industrial sectors (electronics, Cleantech) and the chemicals industry. These sectors comprise a large proportion of the Dutch economy.

Under the right conditions, Dutch enterprises may be able to turn the tide in the years ahead by taking further steps towards building a circular economy. That will depend on knowledge-building, technological advances, direct and indirect regulation, and new revenue models. Technological, societal and organisational innovation can boost the creation of robust, futureproof circular enterprises and in doing so enhance the future earning capacity of the business sector.

The Netherlands is in a favourable position in that it has already taken steps towards creating a circular economy. It is one of the global leaders in recycling, and by incinerating most of its non-recyclable waste, it is contributing to sustainable energy generation. There is further a growing group of Dutch enterprises, municipalities, water boards and knowledge-based institutions that are putting the philosophy of the circular economy into practice in a variety of different alliances. The growing sense of urgency, the countless field labs and the tradition of cooperation create fertile ground for closed-loop cycles in the Dutch economy. A number of leading enterprises are far ahead of the rest in this regard and create export opportunities in this area. Equally if not more important is that circular business models also generate environmental benefits and energy savings.

By adopting circular business models, sectors that are dependent on primary raw materials can futureproof their operations and create new forms of economic activity. There will be knock-on effects in terms of steady employment and job creation in new circular activities, for example maintenance, repair, repurposing and reuse. It is crucial that the Netherlands works to build a circular economy in cooperation with the European Union (*Action plan for a circular economy*) and non-EU countries. Doing so will leverage the impact of its efforts and boost opportunities for Dutch enterprises abroad.

Labour market opportunities and challenges

Researchers have been studying the economic opportunities that the circular economy offers not only to the European Union as a whole but also to individual member states, including the Netherlands. Almost every study has the same overall message: on average, the transition to a circular economy will create more jobs and more value for society and reduce carbon emissions.

However, it is difficult to model the underlying effects properly (at meso- and micro-level) using existing macro-economic models. Issues that play a role include cross-sector relationships, the disappearance of old jobs versus the creation of new ones, different task sets and occupational profiles, and second- and third-order effects. This type of study also ignores the impact of the circular economy on the qualitative aspects of new jobs. Most studies therefore only reveal some of the possible economic effects.

Based on detailed analysis, the SER has concluded that our understanding of the effects on the labour market is incomplete. That means that there is a demand for the following research:

- In-depth study of the labour market aspects of the circular economy, underlying mechanisms and conditions that must be met to effectively accelerate the circular economy. Of particular interest are opportunities to lower the cost of labour-intensive activities in that economy.
- A study of the qualitative aspects of the circular labour market so that the social partners can shoulder their responsibilities and ensure that the circular economy delivers decent work.

The SER believes the Netherlands will be better able to meet the circular economy's future demand for labour by supporting knowledge-sharing and coordination between the education sector on the one hand and enterprises and CSOs on the other. This regards sustainability issues (including the circular economy) that should be included in school curricula. To address this unbalance, enterprises and CSOs need to articulate their demand more effectively. The customised approach needed to tackle this issue would be best served by including educational issues in the Government-wide Programme for a Circular Economy. The SER is also in favour of facilitating on-the-job learning and training, something that requires close coordination between all regional stakeholders. Best practices should also be disseminated in networks. It is up to both employers organisations and trade unions to exploit their own networks for this purpose.

Entrepreneurs must realise that in many cases, they will have to change their management styles in organisations based on circular business models. The new management styles involve employee involvement and allows them to experiment and learn. Circular operational management is therefore inextricably bound up with social and workplace innovation. The point is to improve both operational performance and employee satisfaction. Like standard business models, a circular business model should also guarantee good working conditions (health & safety) and quality jobs.

Components of a Government-wide Programme for a Circular Economy

Before requesting the SER's advice, the second Rutte Government concluded that a Government-wide programme was needed to kick-start the transition to a circular economy. This programme must be rooted in an EU strategy, and effective implementation will require the involvement of many stakeholders. Only then will it be possible to remove the many barriers to a circular economy and accelerate the transition. The SER supports this approach.

Bearing this in mind, the SER advises the Government to reinforce and accelerate the transition to a circular economy by developing transition agendas in the Government-wide Programme that sets ambitious targets for value chains. These are value chains in which the Netherlands occupies a significant position and that are

characterised by major ecological and economic risks and favourable economic opportunities. The Netherlands must also have sufficient leverage in such value chains. The SER believes that the success of the transition agenda will depend on the active involvement of enterprises, employees and CSOs in the implementation process. The most important components of the approach it is proposing are summarised in the table below.

Components of a Government-wide Programme for a Circular Economy	
Category	***Components***
Develop a strategic vision	Develop a strategic vision including transition agendas and specific targets.
Reinforce and expand successful initiatives	***Philosophy:*** Government tackles barriers caused by market and system failure. Also: learning government, government as network participant, and adaptive government policy. Stakeholders play an active role in developing the transition agendas. ***Basic principles:*** Reinforce effective policy; expand and scale up successful initiatives. Also: • Showcase best practices allow room for experimentation, pilots, living labs etc. • Learn from similar large-scale multi-stakeholder programmes. • Circular economy policy integration: cooperation between ministries, Dutch top sector approach (sectors in which the Netherlands is a global leader), tax system, consumer behaviour, financing issues and the international dimension. • Public information and awareness-raising about usefulness and necessity and courses of action. ***Parallel track:*** Follow through on the Government-wide Programme/transition agendas by taking active steps to influence the EU's agenda through the EU Action Programme.
Extend value chains	• Start with the most promising, relevant value chains. • Be on the lookout for cross-cutting issues: knowledge generation, financing questions and revenue models, labour market aspects (education and training, good quality jobs), spatial aspects (different levels of scale) and international corporate social responsibility. • Organise issue-driven networks and 'Communities of Practice'.
Set targets for priority value chains	• Work with key stakeholders to develop a set of transition targets (for 2020/2030/2050) for each priority value chain to which it will be held accountable along with an associated long-term agenda and transition pathways.
Connect at multiple levels	• Develop methods that help actors connect: in the value chain (value chain management), the region (circular cities or regions) and networks. • Connect national actors with relevant foreign partners.
Accelerate through broad commitment	• Monitor trends and include evaluation points. Make changes and adjustments where necessary. • Stick to long-term targets so that business owners, investors and consumers know what they are facing (reduce uncertainty factor).

From advisory report to National Raw Materials Agreement

In response to the SER's advisory report, the Dutch Government presented its Government-wide Programme for a Circular Economy to the House of Representatives on 14 September 2016.[1] The aim of this programme is to create a circular economy in the Netherlands by 2050. The interim target set by the Government and various participating stakeholders is a reduction in the use of primary raw materials (minerals, fossil and metals) by 50% in 2030. The Government has outlined its vision of a future-proof, sustainable economy for future generations. In concrete terms, this means that by 2050, the Netherlands will use and reuse raw materials efficiently without any harmful emissions to the environment. If new raw materials are needed, they will be obtained in a sustainable manner and without causing further damage to society, the physical environment or public health. Products and materials will be designed for reuse with only a minimum loss of value and without harmful environmental emissions. This programme describes the steps to be taken now and going forward en route to 2050.

[1] See: *https://www.government.nl/latest/news/2016/09/14/cabinet-national-raw-materials-agreement-to-foster-recycle-economy-by-2050*. Also: *https://www.government.nl/topics/circular-economy/documents/policy-notes/2016/09/14/a-circular-economy-in-the-netherlands-by-2050*.

On 24 January 2017, the Government followed up by signing a National Raw Materials Agreement with more than 180 organisations and enterprises (also referred to as National Agreement on the Circular Economy).[2] The signatories – ranging from the national government and local authorities to employers' associations, trade union confederations, CSOs and individual enterprises – are committed to a process that will lead to far-reaching agreements. For example, the national government will work with key stakeholders to draft ambitious transition agendas and courses of action in five priority areas. The agendas should clear a pathway to a circular economy by mid-century. The five priorities are biomass and food, plastics, manufacturing, construction, and consumer goods. Formal negotiations concerning the transition agendas commenced on 18 April. The programmes, with timelines and milestones, should be ready by late 2017. They will be valid for a five-year period.

A delegation of the Social and Economic Council presented its advisory report on the circular economy to the House of Representatives in October 2016.

More than 180 parties signed the National Raw Materials Agreement in January 2017.

[2] See: *https://www.government.nl/latest/news/2017/01/25/more-than-180-signatories-for-the-national-raw-materials-agreement and https://www.circulaireeconomienederland.nl/grondstoffenakkoord/documenten+grondstoffenakkoord/handlerdownloadfiles.ashx?idnv=702477.*

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