POSITION PAPER

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Cefic views on the nexus of trade policy and the circular economy

The European Commission's Circular Economy Action Plan (CEAP) is part of the EU's ambitious programs to tackle climate change. For ensuring a realistic and effective design and implementation, it will be of key importance to make sure that also its external dimensions are properly considered. That is to say that strategies seeking to close loops nationally/regionally without being complemented by international coordination may impede trade and threaten global value chains, leading to adverse impacts on the global competitiveness and resilience of the EU's industry and even undermining a sustainable transition and the achievement of the transformational goals intended by those policies.

Cefic believes that for the circular economy to really take off, the following points, amongst others, need to be considered:

a) New ways of designing products, making them more durable, recyclable or reusable can only have a sizable impact on global sustainability goals if they are diffusing, rather than staying limited to relatively small areas or niche products/services.
b) Simultaneously, new recycling technologies, circular business models and more resource-efficient production processes can only spread if the creation of economies of scale underpin economic sustainability and that transboundary transport of waste/secondary materials are adequately facilitated.
c) It must be enabled that recyclable or reusable goods can be easily fed back into the value chains and are not ending in landfill or incineration because local or regional legislations makes shipping or using them unviable.

The subsequent paragraphs will outline key policy asks for improving synergies between trade policy and circularity in the following eight areas:

1. Circularity policy and legislation
2. End-of-life products and recycling
3. Products containing secondary inputs
4. Digitization
5. Bioeconomy
6. Energy and raw materials
7. Trade and Sustainable Development
8. Investments, procurement and services

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Circularity policy and legislation:

- **Alignment with trading partners on key principles defining goals and methods of circularity policy**, including taking into account the full lifecycle approach and effects policies for promoting one political target (e.g. circularity) have on other objectives. Developing **common tools for evaluating and quantifying the environmental impact** and profile of products based on these principles. Such a coordination will especially be needed for the successful implementation of initiatives like CBAMs or the Digital Product Passport (DPP), and mitigation management of the potential adverse effects on EU Competitiveness and trade.
- **Alignment with trading partners on key definitions**, including "recycling", "recyclability", "biodegradability", "design for circularity". Where "recycling" and related terms are defined, it should be ensured that the definitions are technology-neutral and e.g. **chemical recycling is included**. The aligned definitions can form the basis for providing trade incentives for recyclable products.
- Finding **equivalence and/or harmonizing eco-labels**, approximating respective certification processes and increasing international alignment on certain key circularity **product standards**.
- **Promoting the harmonized provision of information on** the material and chemical **composition of products**.
- **Promoting regulatory cooperation** with trading partners and having common understanding on (1) data exchange, (2) assessment procedures and testing requirements as well as (3) prioritization of substances and (4) commitments on early notifications or mutual consultations.

Bringing forwards these points in the context of established bilateral cooperation fora like the EU-US Trade and Technology Council (TTC) and future FTA negotiations will increase the subsequent leverage for ongoing related discussions at the pluri- and multilateral level (WTO, ISO, OECD, UNEP). In this context, related asks in the Cefic position papers on the Circular Economy and chemical recycling offer additional guidance.

End-of-life products and recycling:

- **Creating and aligning definitions and classifications for end-of-life products and "end-of-waste"** enabling the smooth shipment of goods for reuse, remanufacturing, refurbishing or recycling. Creating streamlined procedures for licensing repurposed goods.
- **Clarifying rules of origin for end-of-life products**, preferably being oriented on the country where the product was used.
- **Establishing and aligning classification standards for pre-sorted waste** based on its potential and likely usability, which in return depends on e.g. material composition, purity and quality.
- Ensuring that **end-of-life classifications take new innovative approaches into account** and include residues and waste from bio-based products.

The above may be addressed in the context of key bilateral negotiation (TTC, FTAs) and waste shipment agreements as well as on a pluri- and multilateral level (e.g. Basel Convention, ISO, ongoing WTO initiatives)

and will facilitate policy action regarding the shipment of end-of-life products, e.g.:

- **Liberalizing trade in recoverable/recyclable end-of-life products** based on the level of alignment regarding above-mentioned points, as well as on Environmentally Sound Management of waste. Prioritizing the liberalization regarding movement of end-of-life products between Member States aiming at progressively **creating a Single Market for end-of-life products**. Creating mutual transparency regarding the rules and procedures for waste shipment and aligning approval procedures.
- Developing a **liberal regime for cross-border shipment of product for reuse**, including repurposed products and the need for broadly equivalent environmental conditions.
- Creating **favorable and unbureaucratic conditions for the shipment of recycled raw materials** with partners where agreement on certain minimum standards regarding recycling processes and the quality of recycled materials is possible.

Furthermore, in the context of ongoing technological development, cooperation with partners to develop infrastructure for the trade in CO2 as a raw material should be initiated.

Products containing secondary inputs:

- **Alignment of methods for assessing product environmental footprints** over lifecycles, as well as declaring recycled and biomass content in products, in FTAs and pluri-/multilateral bodies, especially the ISO. Enhance widespread acceptance of commonly recognized chain of methods (ISO/DIS 22095), such as the mass balance approach, to account for using bio-based and recycled feedstocks, including those derived via chemical recycling.
- The need for the acceptance of recycled content from non-EU origin to meet the (upcoming) obligations on recycled content in new articles.

Digitization:

- Enhancing the **free flow of process data** allowing companies to design more efficient processes.
- Creating supportive **frameworks for the creation of dataspaces for cross - value chain and cross-sectoral exchange**, including through cooperation on data formatting and product classification standards as well as the initiation of international stakeholder dialogues on e.g. data exchange platforms, transparency of chemicals in products throughout the supply chain.
- Further pursuing **customs digitization**, the creation of interoperable single windows and the consequent application of the WTO Trade Facilitation Agreement (TFA), given the growing complexity that sustainability regulation means for both companies and authorities. Committing to the creation of **digitized and simplified approval procedures for waste shipment**, including e-notifications.
- Working with partners on **increasing interoperability and data standardization, regulatory frameworks and encryption standards for blockchain technologies**, as an enabler for digitized trade and more reliable and transparent e.g. eco-certifications.
- Increasing **international exchange of data and practices** on product lifecycles, policy impacts and waste streams.

- Introducing robust digital tools allowing increasing transparency throughout the value chain, while simultaneously protecting suppliers' know-how, would help further increase sustainable trade and the uptake of circularity.

Those points may be taken up in the context of established bilateral cooperation fora, like the responsible TTC working groups, and fed into respective FTA chapters, as well WTO discussions, on digital trade.

Bioeconomy:

- **Liberalizing the import of renewable raw materials** and addressing prevailing non-tariff barriers (NTBs) - in coordination with allies, e.g. with the US in the context of the TTC cooperation, where necessary.
- Considering a **liberalization tied to certifications, using TSD chapters, for certain biomass inputs** where serious concerns regarding conflicts with food production and/or deforestation exist.

Further asks regarding the European Bioeconomy Strategy are specified in the respective Cefic position paper.

Energy and raw materials:

- **Ensuring the availability of raw materials and energy sources** necessary for the implementation of new, more sustainable and more efficient technologies by further promoting trade policy asks regarding energy and raw material chapters in FTAs, especially concerning strategic coordination for **a liberalization of investments and service provision in related sectors** and the tackling of **raw material-related NTBs**.
- Finding **common definitions and certification schemes regarding the environmental footprint of hydrogen**, to enable a targeted hydrogen import strategy in line with the goal of facilitating the import of energy (carriers) complying with EU sustainability standards. More detailed asks on hydrogen policy are outlined in the respective Cefic position paper.

The urgency of these asks is getting reinforced by the economic implication of Russia's invasion of Ukraine, since a diversification of suppliers is a key element of increasing (energy) independence. In this context, we welcome the emphasize being put on initiating international energy engagements in the REPowerEU proposal.

Trade and Sustainable Development:

- **Connecting Trade and Sustainable Development (TSD) chapters to capacity building** in the third country related to the fulfillment of agreed-on standards, measurements, classification systems to the UN Sustainable Development Goals.

Investments, procurement and services:

- Promoting technology diffusion by **advancing investment liberalization and protection**, including safeguarding intellectual property rights and establishing dispute settlement mechanisms in every trade agreement.

- Ensuring that public policies for more sustainable technologies and business models are conductive to their global diffusion, including by implementing provisions guaranteeing that **access to green procurement is based on nondiscriminatory and transparent criteria** in public procurement FTA chapters involving the full value chain and by advancing the field on a multilateral level (e.g. WTO Agreement on Government Procurement – GPA).
- **Liberalizing related service access** especially in the circularity area, such as waste management, recycling or waste transport. Facilitating the mutual recognition of licenses for e.g. waste transport and processing.
- Agreeing on enabling **definitions, rules and mutual access for product-as-service models**.

Key recommendations:

Based on listed policy asks, we call upon the Commission to:

At the domestic level:

- Take a role model in promoting **trade in recoverable waste and reusable products,** by adapting internal legislation such as the Waste Shipment Regulation with the goal of allowing **increased trade in recoverable waste and reusable products as well as in recycled raw materials between Member States**. In particular, the asks expressed in the Cefic position papers on the Waste Shipment Regulation and the Waste Framework Directive should be incorporated.
- Increase the **harmonization between EU Member States** of key circularity related policies, definitions and measurements, including Extended Producer Responsibility (EPR) schemes, as well as end-of-life product (shipment) and end-of-waste related legislation. This harmonization should not only encompass the de jure level but also include the **policy implementation**.
- Put into practice **customs and enforcement cooperation** priorities to ensure that legislation on e.g. product stewardship and end-of-life shipments is properly implemented, which is an important prerequisite for the development of circularity. These priorities include the establishment of stakeholder-inclusive joint customs and enforcement working groups, clarification and alignment of rules on online trade and commitments to providing customs with adequate capacities and digital tools.

At the plurilateral and multilateral levels:

- Work in the respective pluri- and multilateral fora (i.e. Basel Convention, OECD) to promote **increased trade in recoverable waste and reusable products as well as in recycled raw materials between the Member States and third countries**
- Take a leading role in the **ISO** to advance international standardization in circularity-related areas, oriented on listed priorities and in close dialogue with industry stakeholders.
- Incorporate the priorities in contributions to ongoing **pluri- and multilateral initiatives** on trade and circularity/sustainability such as the **WTO TESSD & IDP** and discussions on **OECD and UNEP** level.

At the bilateral level:

- Include mentioned (policy alignment) priorities in **upcoming trade negotiations** e.g. with Chile, Mexico, India, Indonesia, Australia and New Zeeland in combination with other Cefic FTA asks being outlined in the respective position paper.

- Use the ongoing **TTC negotiations** as an opportunity to set joint standards on circularity, end-of-life/end-of-waste and secondary inputs. Additional policy asks on the ongoing TTC negotiations are listed in the respective Cefic position paper.

- Prioritize the negotiation of additional agreements with key (potential) **suppliers of** (renewable) **raw materials** and energy (carriers) and coordinate with like-minded partners, including in the context of the TTC, to improve global access to those inputs.

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About Cefic
Cefic, the European Chemical Industry Council, founded in 1972, is the voice of large, medium and small chemical companies across Europe, which provide 1.2 million jobs and account for 15% of world chemicals production.