

ICC SWEDEN

# Priorities for the Global Working Group on Circular Economy

## Introduction

The role of international trade in enabling and accelerating the transition to a circular economy has for several years been an important priority for ICC Sweden's members. It is thus welcome that, with the creation of the new global ICC Working Group on Circular Economy last autumn, the area has also become a priority in ICC's global policy advocacy efforts. In this document, the ICC Sweden Working Group on Circular Economy has listed several obstacles faced by our member companies in their transition to more circular business models.<sup>1</sup>

In general, we agree with the working group directing its main efforts on informing and influencing the developments at the EU, WTO, and WCO levels. We would also like to emphasize the centrality of *the Basel Convention on the Control of Transboundary Movements of Hazardous Waste and Their Disposal* in regulating the cross-border shipment of waste and suggest carrying out advocacy efforts towards the Secretariat of the Basel Convention. We propose that the global Working Group develops a clear set of priorities in relation to each of these institutions. We hope that the insights and suggestions offered below can help inspire such priorities.

## Definitions of Waste and End-of-Waste Criteria

Definitions of waste are a general obstacle in the transition to a circular economy and have a major impact on many aspects of the transition. In addition, unclear and diverging end-of-waste criteria, that is, how a product or material once defined as waste can be returned to the market, are in dire need of an update that is fit for purpose in a circular economy. As waste is defined on several different levels — locally, nationally, and regionally — the overarching issue is the lack of harmonization and clear guidelines on how waste should be defined and when it ceases to be considered as waste.

- **Harmonize and provide certainty in the definitions of waste, especially concerning what should not be classified as waste.** With the targeted revision of the EU Waste Framework Directive, the EU Commission should further explore how broad and diverging definitions of waste affect circular flows and further how it impacts regulations on transportation of waste. The central aim should be for more harmonized and clear definitions of waste on the EU single market, and that the scope for interpretation among the member states is as narrow as possible, since diverging implementations of directives, as we know from experience, can contribute to fragmentation.<sup>2</sup>
- **Address uncertainty concerning end-of-waste.** End-of-waste criteria should be applied as common EU criteria, across all member states. Today's regulations, according to Article 6.3 of the EU Waste Framework Directive, allow member states to introduce national criteria for when waste ceases to be considered waste with respect to specific waste streams. Today, this includes most types of waste. This leads to fragmentation which increases costs and limits the pace of the transition. In addition, the general criteria are too vague. Since each operator must independently assess

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<sup>1</sup> Several of these priorities draw directly on the recommendations identified in a 2023 circular economy report by our member organization the Confederation of Swedish Enterprise. "Creating favourable market conditions for the development of the circular economy" (2023), Svenskt Näringsliv (Confederation of Swedish Enterprise), [https://www.svensktnaringsliv.se/bilder\\_och\\_dokument/rapporter/9srggh\\_circular\\_economy\\_digital\\_finalpdf\\_1196475.html/Circular\\_economy\\_DIGITAL\\_FINAL.pdf](https://www.svensktnaringsliv.se/bilder_och_dokument/rapporter/9srggh_circular_economy_digital_finalpdf_1196475.html/Circular_economy_DIGITAL_FINAL.pdf)

<sup>2</sup> The EU Commission's Single-Use Plastics Directive from 2019, where different jurisdictions applied and interpreted it in vastly different ways, led to the fragmentation of the market for single-use plastics in the single market and made it difficult for circular flows.

whether the criteria are met or not, this leads to uncertainty. Due to this uncertainty, the supervisory authority may come to a different conclusion than the operator during a subsequent review. There already exist harmonized end-of-waste criteria in the form of EU regulations for certain prioritized waste streams, i.e., a) iron, steel, and aluminum scrap, b) glass cullet, and c) copper scrap. Work is also underway to identify common end-of-waste criteria for textiles and plastics. ICC should play an active part in their development, provide concrete business insights, and advocate for this initiative to be broadened to other relevant waste streams as well.

- **Advocate for an updated hierarchical approach to defining waste.** Today's broad definition of waste and outdated hierarchical approach results in waste regulations that limit the reuse of resources, materials, and products or by-products that would otherwise not need to be processed at waste treatment sites. Definitions of waste need to be more specific so that "waste" is limited to products and materials that cannot easily re-enter the material flow. There should also be a clear hierarchy of definitions that, when adhering to specific standards, allows for a distinction between e.g., materials that can be returned to material streams after being processed at a waste treatment site and materials that do not have to be treated at special facilities before reuse. This would encourage a more circular treatment of materials and products, while limiting unnecessary intermediary steps.<sup>3</sup> Extensive and vague definitions of waste also limit the types of materials and products that can be transported across borders, which is detrimental to the transition to a circular economy on a global scale.
- **Distinguish resources from waste based on quality, not origin.** Whether or not a material or a resource is defined as waste should be based solely on its quality and not, as currently often is the case, on its origin, that is if it is recycled or comes from a virgin source. All materials that have a potential continued value must be seen as resources, and thus, distinguished from the waste definition. New technologies have been developed that can produce high quality resources from already used material. However, today these resources are defined as waste, which in many cases limits trade or makes the cost of trading too high, although the environmental footprint is lessened. Today's linear regulations focus on the origin of materials rather than their quality, which limits the demand for secondary resources.

### **Waste Management and Ownership**

How waste is handled and managed, as well as who holds ownership of it, are key components when companies transform their models from the wear-and-tear economy to a more circular way of handling their operations. Both member states and the EU Commission must bring clarity on these issues and how the transition will be operationalized.

- **Prolong the storage time limits of waste.** Technological development and innovation are progressing rapidly and the demand for recycled material is increasing. Not all materials are recyclable as of today, however, conditions are changing fast.

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<sup>3</sup> E.g., today, when constructing a tunnel, large quantities of excavation material are generated as a by-product. However, because this material is defined as waste, the material cannot be reused in construction without first being sent to a waste treatment site. Instead of using the material that is readily available, it can then become cheaper for construction companies to use virgin raw materials. Another example is second-hand clothing and textiles; under EC regulation 1013/2006, exporters are required to ensure that products are completely free from defects to be classified as used goods and not waste. Similarly, spare parts for vehicles are required to be free from any damage or rust, or else they will be subject to regulations for cross-border transportation of waste rather than used goods.

Furthermore, we are aware of the enormous amounts of resources that will be needed to make the green transition possible. Thus, increased resource-efficiency and reuse of resources will be key. Hence, ICC should advocate for the prolonging of storage time limits for materials and products that are deemed to be able to become recyclable or extractable in the future in so called material banks.<sup>4</sup> There are also situations, where a material may already be recyclable, but where there is currently a lack of demand that may change in the future. In situations where it is possible to predict a time and place in the future when a certain resource will be needed, prolonging the storage time limits is key to ensuring that the material is readily available and retains its function when the need for it arises. Today, limited storage time forces companies to get rid of materials that they know, for a fact, could be used in the future.

- **Strengthen companies' ownership rights to their produced waste.** Companies today experience problems in the end phase of the management of their goods, as they lose ownership in the final phase of a product's life cycle. When a product in Sweden is deemed no longer usable by a consumer, the product is most often transferred to the municipality's ownership as the products physically enter the waste facility. This limits the ability of companies to repair and refurbish products that could have a prolonged life cycle. Therefore, alternative waste mechanisms must be investigated where corporate ownership of goods is strengthened. It would create incentives for new innovative business models concerning resource management and allow companies to extract the full value of their resources, rather than those simply becoming waste.<sup>5</sup> Furthermore, questions relating to the ownership rights of waste that arise in direct conjunction with a company's operations are also an important issue in this regard. Many companies have the capacity to recycle and reuse the waste from their production processes and allow it to circulate in a sustainable loop, but local regulations may limit this and make such solutions hard to implement in practice.

### **Cross-Border Trade and Waste Shipment**

Free trade and the cross-border movement of waste, secondary raw materials, recycled goods, etc., is central to the transition to a circular economy and to make circular business models scalable and profitable. Ensuring harmonization of waste shipment regulations and that trade restrictions are kept to a minimum while maintaining waste treatment standards and preventing waste-dumping, should therefore be a key priority for the working group. We recognize that today's restrictions exist for a good purpose, but more needs to be done to enable trade with valuable secondary resources. It is therefore welcome that Chapter 7 of the 2020 EU Circular Action Plan states that the EU will "propose a Global Circular Economy Alliance" and that the EU will "ensure that free trade agreements reflect the enhanced objectives of the circular economy". Additionally, we propose that the ICC working group should consider to:

- **Provide business input to the EU Waste Shipment Directive and strive towards a harmonized implementation across the single market.** A coordinated implementation of the Directive is fundamental to ensure that cross-border trade is not hampered by

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<sup>4</sup> One resource that is not recyclable on a large scale today is carbon fibers, due to high costs and specialized equipment. However, technology for recycling this material is developing rapidly, and it is suggested that carbon fiber may become recyclable in the near future. Another example is dross, which we know contains many of the rare earth metals needed in the green transition, but which in many cases are not extractable on a commercial scale, as of today.

<sup>5</sup> In Sweden, only municipalities can offer pick-up services for bulky waste, such as furniture from households. Thus, the development of companies' circular business models, e.g., companies collecting furniture for refurbishment, in relation to solid waste is hindered.

diverging national legislations. An important point to stress is also the need to facilitate the transportation of research quantities to encourage transportation of waste for research purposes. Improved regulations on transportation for research purposes is especially critical to prompt innovation, scientific collaboration, and the development of green technology and new circular products and materials. Facilitating trade with waste for research purposes could serve as a test ground and first step towards a framework enabling trade in larger quantities of waste in the near future, while ensuring that high waste management standards are maintained.

- **Consider how ICC can help address the practical challenges posed by the Basel Convention on the Control of Transboundary Movements of Hazardous Waste and Their Disposal.** In its current form, the Convention and its implementation present companies with several obstacles such as a lack of predictability due to issues related to notifications and prior informed consent to import and transport hazardous waste<sup>6</sup> as well as uncertainties related to the scope of the Convention and the definition of hazardous waste<sup>7</sup>. This is also a challenge when it comes to research and development, as transport of even small amounts of material is often very complicated and is a direct obstacle to a circular transformation and innovation. Challenges due to a lack of harmonization in the implementation of the Convention are common even within the EU single market. Advocating for heightened harmonization of the implementation within the EU could therefore be a first step in addressing these issues.
- **Advocate for trade agreements to include circularity clauses.** In recent years, clauses relating to the circular economy have made their way into Free Trade Agreements. This reflects an increasing understanding of the fact that a transition to a circular economy is dependent upon the mitigation of trade related obstacles. It can also provide valuable insights that can then be built upon in e.g., the WTO. The inclusion of circular clauses in Free Trade Agreements should therefore be welcomed and advocated by the ICC, as a steppingstone for a more global approach. This is, again, especially important when it comes to allowing transport of materials for research and piloting. Today a maximum of 25 kg per shipment is exempt from complicated and prohibitive environmental approval processes.
- **Advocate for the WTO to play a greater role in relation to trade and the circular economy.** The 2021 ICC report “The Circular Economy and International Trade: Options for the World Trade Organization” set out several concrete recommendations on how the WTO can better support the transition to a circular economy and remove trade restrictions. The working group’s advocacy efforts toward WTO should build on these recommendations and provide further concrete business experiences to highlight the challenges faced.

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<sup>6</sup> Specific challenges that businesses face include 1) different notification procedures in different countries due to diverging national implementations of the convention, 2) long approval times, and 3) the need to obtain prior informed consent from all countries in the transit chain before the waste can be exported, with the added risk that the consent from one country may no longer be valid by the time consent has been secured across the entire transit chain, forcing businesses to restart the notification procedure. Complicated procedures often result in companies not undertaking the shipment at all.

<sup>7</sup> Due to complexities and ambiguities arising from diverging national definitions of hazardous waste, exporters face difficulties in determining whether a product is within the scope of the convention. One example is used lithium-ion batteries, which depending on national legislation may be considered either “hazardous waste”, “universal waste!”, or not considered waste at all. This raises the question of whether the Convention is applicable or not. It also presents an additional challenge when several transit countries are involved, in which case the product may be defined as hazardous waste in parts of the transit chain, but not its entirety.

- **Align HS codes with growing trends of trade with used and recycled products.** The Harmonized System (HS) Codes, administrated by the World Customs Organization (WCO), are widely used by most countries in the world for customs purposes and for international trade statistics. They thus serve a very practical purpose in facilitating trade and differentiating between different categories of goods. An updated HS, which on a more granular level differentiates between waste and resources, therefore offers an opportunity in relation to the green and circular transition. We suggest that there needs to be more precise and accurate classifications in the HS for secondhand goods and products of recycled material to enable and encourage international trade with more sustainable products. The revision by the WCO of the HS provides an opportunity to align the HS classifications with the progress and innovation of various industries and the growing trend of trade with used and recycled goods.<sup>8</sup> A well-designed system would do much to enable more circular trade. We welcome the current ICC engagement on this issue and would like to stress the importance of ICC taking an active part in the review process. The focus should be on providing concrete and detailed business input to ensure that trade with recycled and secondhand goods are fully encouraged and supported by the HS system. In our continued advocacy efforts, we should therefore ensure to make the most of our global network and the very concrete experiences and input that member companies can provide. We are happy to help facilitate such experience sharing from Swedish companies.

### **Standardization and Traceability**

Harmonization and international standards are critical in the transition to a circular economy and to ensure that businesses, when becoming more circular, remain competitive on all markets. Furthermore, digitalization plays a key role in the ability of companies to trace materials and substances and thus enabling recycling. Digital solutions to standardization and traceability can enable more effective cross-border trade and resource- and waste shipments. The EU's proposal on Digital Product Passports (DPPs), as part of the Ecodesign for Sustainable Products Regulation, has the potential to become an effective information carrier for relevant substances in materials and products to provide companies with the necessary information that will enable more circular management of products. In relation to this topic, ICC should:

- **Advocate for harmonized international standards.** There are currently many ongoing efforts to standardize definitions and concepts relating to the circular economy, for example within the EU as well as by the International Standardization Organization (ISO). It is important that these standards are as harmonized as possible to avoid fragmentations, uncertainty, and non-tariff trade restrictions across jurisdictions.
- **Provide insights from the business community on the design and implementation of Digital Product Passports.** Standardized datasets are key to ensure traceability, facilitate circular business models and encourage innovation. However, the product passports and the amount of information they contain must be manageable for businesses, especially SMEs, while also taking into account how to ensure that it is possible to recycle chemical substances, materials and products that are on the

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<sup>8</sup> For instance, classifications for trading with worn clothes (using the HS code 6209) should be specified with considerations for the intended end use — reuse, recovery, recycling, or disposal as waste. There should also be more specific classifications of products from recycled material or products which contain some recycled content, such as clothing from recycled material or recycled paper and carton in packaging.

market today. Considering the varying conditions and properties of different materials and products, information requirements will have to be carefully developed. For instance, for materials or products where exposure to dangerous substances is basically non-existent, requirements should be more limited.

- **Advocate for industry-adapted definition of Substances of Concern (SoC).** The European Union Chemicals Strategy sets out the roadmap to achieve a toxic-free environment. In the Proposal for Ecodesign for Sustainable Products Regulation (ESPR) the EU Commission suggests the limitation of so-called Substances of Concern (SoC). Considering the continuous technological development when it comes to recycling, it is important that this does not adversely affect the transition to a circular economy. A clear definition needs to be developed together with criteria that indicate what the selection of substances should be based upon, with technological development in mind. Furthermore, when legislating on the restriction of substances, policymakers should always consider the value chain feasibilities for substituting the substance in question, as every value chain is unique and must be managed accordingly.

### **Business Models & Financing**

The transition to a circular economy will involve changes in product design, production processes, services, and consumption patterns. This, in turn, requires that companies shift from more traditional business models to activities with a higher degree of e.g., product-as-a-service models where the focus is on delivering a function to the consumer but where the company in many instances maintain the ownership to facilitate repair and refurbishment. There need to be appropriate mechanisms, incentives, and financing solutions in place to facilitate this.

- **Provide insights on obstacles to circular business models.** The EU's Circular Action Plans sets out an ambition of "a strong and coherent product policy framework that will make sustainable products, services and business models the norm and transform consumption patterns so that no waste is produced in the first place". In this process, ICC should provide insights and experiences from our member companies regarding the challenges businesses face in transitioning to more circular business models.
- **Increase dialogue between stakeholders about access to financing.** Acquiring funding for circular business initiatives is a challenge raised by our members. Companies often find it difficult to convince lenders and investors to allow financing for circular business models as these are evaluated according to the linear principles on which traditional accounting rules are established. Hence, many ventures fail simply because of the difficulties of gaining access to capital. Initiating a conversation with different banks on how to increase funding opportunities for circular business initiatives will therefore be important. On that account, we suggest that the ICC working group make efforts to involve the various banks within the network to initiate discussions regarding the financing of new circular business models.
- **Advocate for tax reforms that incentivize the circular transition and remove tax obstacles.** Tax rules can play an important role to incentivize the circular transition, however, if designed according to a linear economic model, they can instead constitute major obstacles to the green transition. A general review of VAT rules is needed to support green transactions and the competitiveness of circular business. For instance, VAT rules that lead to double taxation, such as for used goods, should be



abolished. Tax legislation should always be designed in a way that makes it more beneficial and profitable to conserve resources rather than act wastefully.

- **Recognize that each value chain is unique and that the circular transition will differ between sectors.** It is important to keep in mind that there is no one-size-fits-all approach to the circular transition. While some policy measures, such as enabling cross-border movement of waste or more specific end-of-waste criteria are important across sectors, it must be acknowledged that sectors can more easily become circular, whereas for others it is more challenging. One reason is a lack of supply of circular resources in some sectors. This is something that must be recognized and reflected in regulatory processes, not least when discussing potential quotas.<sup>9</sup>

## Conclusion

This paper has listed some of the challenges and priorities identified by our members regarding the transition to a circular economy. We hope that the recommendations of this paper will be considered by the working group in its global policy advocacy for circularity. As the members of ICC Sweden represent a wide range of industries and businesses, many of which have already taken important steps in becoming more circular, we also offer to contribute case studies that could provide further valuable insights into business experiences as well more concrete challenges faced relating to the above areas.

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<sup>9</sup> The steel industry is a good example, where there is not enough material on the market today that can be recycled. Today, the yearly demand for steel is more than 1,800 billion tons. 40 years ago, 900 billion tons of steel were produced per year. As the average life cycle of steel is considered to be 40 years, that means that there is not enough steel to be recycled for the sector to become fully circular. Thus, for the foreseeable future, the sector remains reliant on virgin raw materials.