



CIRCULAR IMPACTS

The Interplay between the Circular Economy and the European Semester

An assessment



Funded by the European Union

AUTHORS

Arno Behrens, Senior Research Fellow and Head of Sustainable Resources, CEPS (Centre for European Policy Studies)

Vasileios Rizos, Research Fellow, CEPS (Centre for European Policy Studies)

With contributions from:

Geert Woltjer, Senior Researcher, Wageningen UR

Aaron Best, Senior Fellow, Ecologic Institute

The content of the report is the sole responsibility of the authors.

Project coordination and editing provided by Ecologic Institute.

First version completed in October 2017, revision completed in December 2017.

Document title	The Interplay between the Circular Economy and the European Semester: An assessment
Work Package	2
Document Type	Deliverable
Date	31 October 2017
Document Status	Resubmitted 22 December 2017

ACKNOWLEDGEMENT & DISCLAIMER

This project has received funding from the European Union's Horizon 2020 research and innovation Programme under Grant Agreement No. 730316.

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Abstract

The European Semester is the European Union's annual cycle of economic policy guidance and oversight. Although monitoring the achievement of Europe 2020 Strategy targets, some of which focus on energy and climate change, is among the key actions of the European Semester, the reviewers so far have concentrated on economic policies in the aftermath of the financial and economic crisis. The circular economy is currently part of the European Commission's agenda for jobs, growth and investment, which are important themes of the Semester. Against this background, this paper assesses the extent to which the European Semester genuinely takes the circular economy into account in its review process. Based on a close examination of the 2017 cycle of the Semester and interviews with experts in the field, our analysis shows that the exercise has devoted limited attention to the circular economy. Several explanations are offered for this situation, along with recommendations for the way forward.

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Executive Summary

This paper assesses how the circular economy is taken into account in the European Semester, which is the European Union's annual cycle of economic policy guidance and oversight. The analysis focuses on the resource-use aspects of the circular economy and is based on a literature review as well as five interviews with experts from EU institutions, national ministries and academia. The paper first reviews the three essential documents published by the European Commission for the European Semester: the Annual Growth Survey, the country reports and the country-specific recommendations. It then identifies the key challenges for integrating the circular economy into the European Semester process. Some insights are also gleaned from the EU Environmental Implementation Review, which is a tool aimed at improving the implementation of environmental policies across the EU. Finally, the paper looks into the links between the European Semester and the Sustainable Development Goals.

The key conclusions and recommendations are presented below:

- The European Semester takes the circular economy into account only to a limited extent.
- The last three Annual Growth Surveys (2016, 2017 and 2018) acknowledge the political commitment of the European Commission to the transition to a circular economy, with a particular focus on investment. Nevertheless, the topic is insufficiently or not at all followed up in the country reports and in the country-specific recommendations.
- This limited focus on the European Semester in the circular economy can be attributed to a number of reasons. These relate to the current structure and emphasis of the Semester, the lack of information of macroeconomic relevance, the availability and timeliness of relevant indicators and the political priorities that originally guided the introduction of the Semester.
- The Commission should consider dedicating more coverage to the circular economy in the Annual Growth Survey and going beyond the current spotlight on sustainable investment. There is also a need to take a more harmonised approach to include circular economy-related issues than is currently the case in the country reports and the country-specific recommendations.
- Indicators used to report developments in the circular economy throughout the Semester should be based on data and other information published e.g. as part of the European Resource Efficiency Scoreboard and the EU SDG Indicator Set.
- Statistical offices need to provide timely data to allow for proper monitoring of circular economy-related policies and to enable the formulation of practical and effective country-specific recommendations.
- Reliable information and data on the macroeconomic impacts of the circular economy are required in order to better reflect the circular economy in the Semester. At the present time, there are limited sources that provide such information.

1 :: Introduction

The European Semester is the European Union's annual cycle of economic policy guidance and oversight. It is essentially a mechanism to coordinate the economic policies of all EU member states and to address economic challenges. The focus of the Semester so far has been on economic policies for growth, jobs and investment. Particular goals are to ensure sound public finances, prevent macroeconomic imbalances, pursue structural reforms in support of economic growth and job creation, and to increase investment (European Commission, 2017a).

Monitoring progress towards the entirety of targets¹ set forth by the 'Europe 2020 Strategy' is among the key actions of the Semester (European Commission, 2017a). Nevertheless, since its introduction in 2010, the Semester has mainly concentrated on economic policies in the aftermath of the financial and economic crisis. To ensure that the environmental dimension of the Europe 2020 Strategy is taken into account, a process called 'greening the European Semester' has received increasing attention. In October 2014, the Council of the European Union (2014) recognised that the transition towards a resource-efficient and circular economy could contribute to long-term prosperity. More specifically, it called for including the circular economy and resource efficiency, with their growth and employment opportunities, in the Semester and made various proposals for how this could be done.

In this context it is important to note that resource-efficiency improvements were not included in the headline targets of the Europe 2020 Strategy. Instead, a "Resource Efficient Europe" was selected as one of the seven flagship initiatives of the strategy, aimed at decoupling economic growth from resource and energy use. With this in mind, the mandate of the Semester can be interpreted as allowing additional considerations – like the circular economy – only if they contribute to the achievement of the targets of the Europe 2020 Strategy.

In line with the current political priorities of the European Commission, the circular economy is part of the agenda for jobs, growth and investment. This is also documented in the European Commission's Work Programme 2018 (European Commission, 2017b). Thus, the circular economy is closely linked with the goals of the European Semester. Against this background, this paper presents an analysis of how the circular economy is reflected in the 2017 cycle of the Semester and what challenges exist to a better integration. Based on this analysis, the paper presents some proposals for how the circular economy could play a more prominent role in the Semester.

It should be noted that the analysis is restricted to the resource-use aspects of the circular economy (resource productivity, waste management, recycling, etc.) and does not cover other issues, such as the energy transition and climate change. That is first because contrary to resource efficiency and the circular economy, the EU's 2020 targets on energy and climate change are included in the headline targets of the Europe 2020 Strategy, and

¹ The Europe 2020 Strategy has five headline targets: 75% of the population aged 20-64 should be employed; 3% of the EU's GDP should be invested in R&D; the '20/20/20' climate/energy targets should be met; the share of early school leavers should be under 10% and at least 40% of the younger generation should have a tertiary degree; 20 million fewer people should be at risk of poverty. The 20/20/20 climate/energy targets refer to the 2020 climate & energy package, which includes the following targets: reducing greenhouse gas emissions by at least 20% compared with 1990 levels; increasing the share of renewable energy sources in the EU's final energy consumption to 20%; and increasing energy efficiency by 20% (European Commission, 2010).

are thus an integral part of the European Semester's assessment. Second, the monitoring of progress towards these targets is already institutionalised in existing and planned monitoring frameworks.²

The analysis in this paper is based on desk research and five interviews with experts from EU institutions, national ministries and academia. The interviews were conducted in person or by phone between June and July 2017. In addition, the paper reflects discussions within a workshop organised by the Circular Impacts project³ in December 2017 with project members, officials from the European Commission and the Executive Agency for Small and Medium-sized Enterprises (EASME) and industry representatives.

2 :: The status quo: Environmental considerations in the European Semester

To understand the status quo of environmental considerations in the European Semester, it is important to know the key documents and stages of their preparation.

In a nutshell, the process of the Semester consists of three phases (see Table 1). In a preparatory phase preceding the first phase (November/December), the Commission publishes the Annual Growth Survey (AGS), which gives an overview of the economic situation and lays out its view of EU policy priorities for the next year. During the first phase (January to March of the following year), the Council of the European Union discusses the AGS, sets out overall policy guidelines and adopts conclusions. In February/March, the Commission publishes country reports for all member states, including in-depth reviews of macroeconomic balances (General Secretariat of the Council, 2017a).

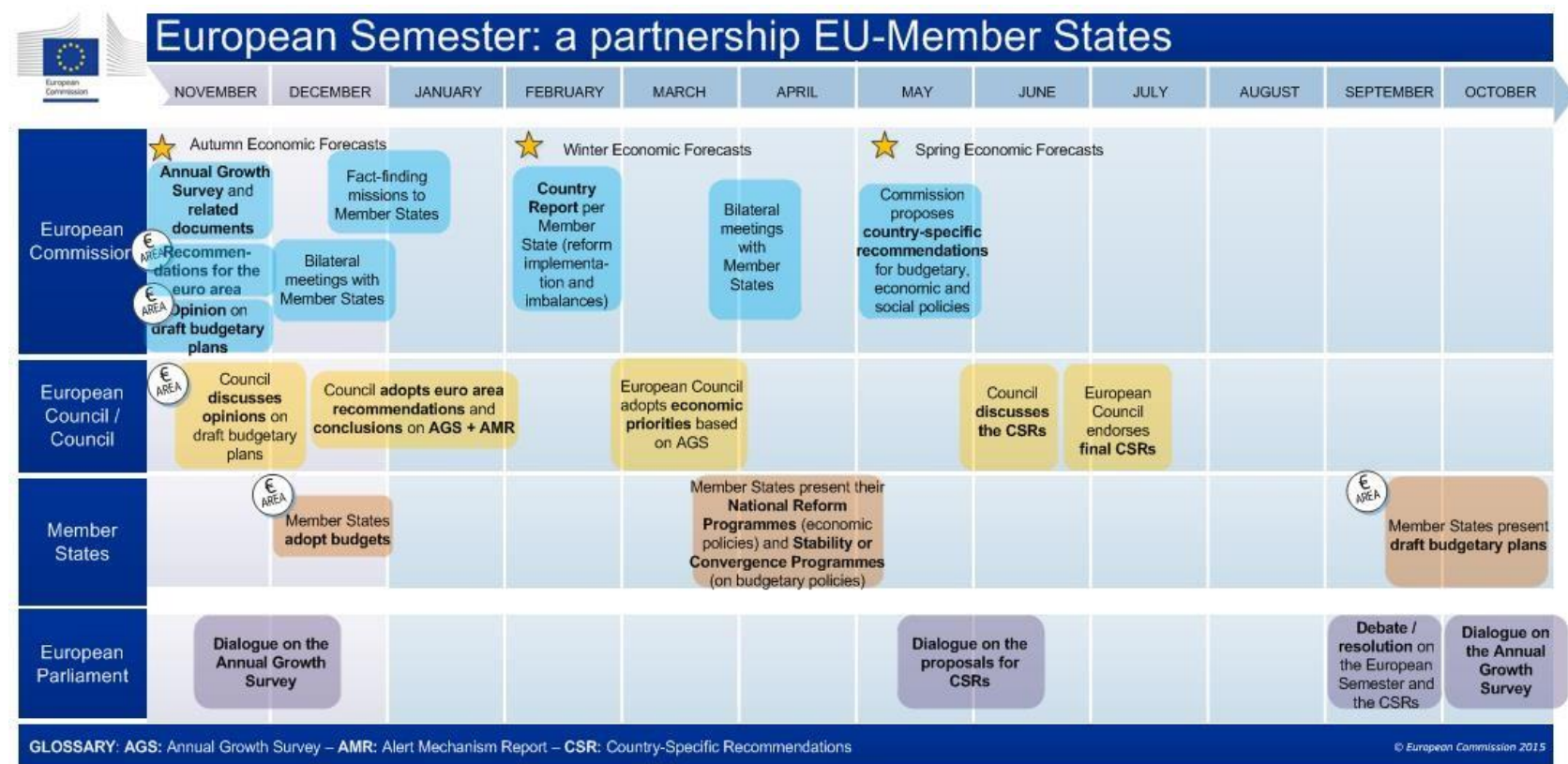
The second phase starts in April, when member states are expected to present their national reform programmes, taking into account the priorities identified in the AGS, the findings of the country reports and progress achieved in the previous cycle of the European Semester. These national programmes are then evaluated by the European Commission, which publishes draft country-specific recommendations (CSRs) in May. In June and July, the Council of the European Union discusses these recommendations and formally adopts the final versions in July. The third phase of the Semester consists of the implementation of the CSRs in the national budgets of each member state. It lasts for the remaining six months of the year (also referred to as “the national semester”) (General Secretariat of the Council, 2017a).

There are thus three essential documents published by the European Commission for the European Semester: the AGS, the country reports and the CSRs. The following sections will describe how the circular economy and related concepts like resource efficiency, waste management and recycling were taken into account in the key documents published by the European Commission during the 2017 cycle of the European Semester.

² These include the renewable energy progress reports, reporting on progress towards EU climate commitments required under Art. 21 of Regulation (EU) No. 525/2013, reports on the state of the Energy Union, as well as future biennial reports on the progress member states make in implementing their integrated national energy and climate plans.

³ For more info, see <http://circular-impacts.eu/>.

Table 1: The European Semester – Annual cycle of policy coordination



Source: Eurostat (2017).

2.1 The Annual Growth Survey

The AGS is the starting point of the European Semester and sets out the general economic priorities for the EU (European Commission, 2017c). The AGS of the 2017 cycle of the Semester was published in November 2016 and “outlines the most pressing economic and social priorities on which the European Union and its Member States need to focus their attention in the coming months” (European Commission, 2016a, p. 2). As suggested by this very first sentence of the AGS, the main emphasis of the document is on economic and social developments. Environmental or circular economy aspects are not included in the three-page introduction providing an overview about the European economy.

The document contains three sets of general recommendations: boosting investment, pursuing structural reforms and ensuring responsible fiscal policies. The section on investment includes a paragraph specifically dedicated to the circular economy. In fact, the Commission stresses the importance of sustainable investments in support of the transition towards a low-carbon and circular economy for job creation. This is fully in line with the conclusions of the Council of the European Union of October 2014. The Commission also mentions several areas of potentially significant macroeconomic importance, including green public procurement, investment in waste and water infrastructure, sustainable construction, critical raw materials, biofuels and biochemical, as well as energy and climate-related investment.

In order for sustainable investments to come through, the AGS calls for further steps to tackle barriers to investment with the aim of providing for a predictable business environment. The circular economy package is explicitly mentioned as an initiative that “will help to remove barriers, promote innovation and improve the environment for investment, when fully implemented” (European Commission, 2016a, p. 8).

The other two sections on structural reforms and fiscal policies do not contain any references to environmental policies or the circular economy. It is worth noting that the conclusions of the Council of the European Union of 2014 mention several instruments relevant to these two chapters, including shifting taxation from labour to pollution, phasing out environmentally harmful subsidies and more generally implementing the polluter-pays principle. However, none of these instruments are reflected in the AGS of the 2017 cycle.

Although this paper concentrates on the 2017 cycle of the Semester, a note should be made about the AGS published in November 2017 that started the 2018 European Semester cycle. Similar to the 2017 AGS, in the 2018 AGS the circular economy is mentioned in the section on investment as one of the key areas⁴ in which investment can boost productivity and employment. The document furthermore emphasises that “investment that enhances environmental sustainability has the potential to boost productivity across the economy through enhanced resource efficiency and reduced input costs, whilst reducing external costs and impacts” (European Commission, 2017d, p. 5). The specific areas identified by the survey are similar to those mentioned in the 2017 AGS, namely public procurement, investment in waste and water infrastructure, construction, critical raw materials, biofuels and biochemical. Unlike the 2017 AGS,

⁴ That is together with other areas, namely infrastructure, education, training, health, research and digital innovation (European Commission, 2017d).

energy and climate-related investment are not mentioned in this list (although they are referred to in another part of the document in a different context).

In addition, the 2018 AGS makes the link between competitiveness and resource efficiency and mentions that “competitiveness will be dependent on the ability to move towards more sustainability and resource-efficiency and the ability to exploit the advantages of digital technologies” (European Commission, 2017d, p. 11).

The section on structural reforms also includes a paragraph on potential tax shifts away from labour. The paragraph does not mention the new tax base to which this shift is to take place. It can hence be concluded that at least implicitly, a potential tax shift from labour to pollution is regarded as an option. This stands in contrast to the 2017 AGS, where lower taxation of labour is only mentioned in the context of reducing inefficiencies in tax collection.

The 2018 AGS thus acknowledges the political commitment of the European Commission to the transition to a circular economy, which was first introduced in the 2016 AGS. As in previous years, the attention is on investment in environmental sustainability and its potential to increase productivity and employment.

2.2 Country reports

In February 2017,⁵ the Commission published country reports for all EU member states with the exception of Greece.⁶ These reports analyse progress made towards reforms recommended in the previous European Semester cycle and include reviews of macroeconomic imbalances for those countries that face such risks (12 member states in total).

A first observation of the country reports is that each of them includes a harmonised table with “green growth” indicators (see Table 2). While most of the 24 indicators are somewhat related to the circular economy (including a host of energy-related indicators), three indicators have direct relevance: resource intensity (kg/€), waste intensity (kg/€) and municipal waste recycling rate (%). Data are reported for the years 2010–15. Resource intensity data are up-to-date for all countries, but only 23 countries report their municipal waste recycling rate for 2015, and no country has 2015 data for waste intensity. This means that some of the circular economy-related data were already three years old at the time the country reports were published, making it very difficult to give an up-to-date overview about progress achieved in the member states.

In addition, it is noticeable that the use in the table of the resource intensity indicator is not in line with the European Resource Efficiency Scoreboard, which uses resource productivity as the lead indicator. The latter is measured as the ratio between gross domestic product (GDP) and domestic material consumption (DMC). It should be kept in mind, however, that the choice of resource intensity as an indicator was made before the launch of the Scoreboard, since the green growth tables were introduced during the early cycles of the Semester. To this end, the consistent use of the resource intensity indicator can be justified on the basis that that empirical inferences need to have a stable set of

⁵ All reports were published on 22 February 2017, except for Bulgaria (28 February) and Slovakia (27 February).

⁶ As Greece is currently implementing an economic adjustment programme, the country is not subject to oversight under the European Semester at the present time. For more details, see General Secretariat of the Council (2017b).

indicators over a long period. Yet, the political weight attached to the Scoreboard by the European Commission as well as the upcoming introduction of a monitoring framework for the circular economy⁷ warrants an eventual better harmonisation of indicators.

Table 2: Green growth indicators as presented in the country reports (example of the Czech Republic)

Table C.5: **Green Growth**

Green growth performance		2010	2011	2012	2013	2014	2015
Macroeconomic							
Energy intensity	kgoe / €	0,29	0,27	0,27	0,28	0,26	0,25
Carbon intensity	kg / €	1,12	1,08	1,06	1,03	0,97	-
Resource intensity (reciprocal of resource productivity)	kg / €	1,36	1,41	1,26	1,25	1,25	1,24
Waste intensity	kg / €	0,19	-	0,19	-	0,18	-
Energy balance of trade	% GDP	-3,3	-3,9	-4,1	-4,1	-3,7	-
Weighting of energy in HICP	%	13,40	14,04	14,22	14,06	14,36	14,42
Difference between energy price change and inflation	%	-1,9	3,7	5,0	-0,1	-5,7	0,8
Real unit of energy cost	% of value added	18,9	20,1	20,7	20,1	19,4	-
Ratio of environmental taxes to labour taxes	ratio	0,14	0,14	0,13	0,12	0,12	-
Environmental taxes	% GDP	2,3	2,3	2,2	2,1	2,1	-
Sectoral							
Industry energy intensity	kgoe / €	0,20	0,19	0,19	0,20	0,18	-
Real unit energy cost for manufacturing industry excl. refining	% of value added	19,1	19,0	19,0	18,6	17,4	-
Share of energy-intensive industries in the economy	% GDP	14,44	14,23	14,00	13,64	14,06	-
Electricity prices for medium-sized industrial users	€ / kWh	0,11	0,11	0,10	0,10	0,08	0,08
Gas prices for medium-sized industrial users	€ / kWh	0,03	0,03	0,03	0,03	0,03	0,03
Public R&D for energy	% GDP	0,02	0,02	0,02	0,02	0,03	0,02
Public R&D for environmental protection	% GDP	0,02	0,01	0,01	0,01	0,01	0,01
Municipal waste recycling rate	%	15,8	17,0	23,2	24,2	25,4	29,7
Share of GHG emissions covered by ETS*	%	56,0	55,5	53,6	51,8	53,0	54,1
Transport energy intensity	kgoe / €	1,00	1,07	1,08	1,08	1,16	-
Transport carbon intensity	kg / €	2,78	2,94	2,98	2,99	3,20	-
Security of energy supply							
Energy import dependency	%	25,5	28,8	25,4	27,7	30,3	31,9
Aggregated supplier concentration index	HHI	25,1	31,5	29,1	34,4	27,3	-
Diversification of energy mix	HHI	0,27	0,28	0,27	0,26	0,26	-

Source: European Commission (2017f).

Also, in the table there is no absolute indicator of resource use (e.g. DMC or RMC,⁸ once made available by Eurostat) or an indicator of resource use per capita (e.g. DMC or RMC per capita). These indicators are important to identify trends and thus for assessing the success of a government's circular economy policies. Generation of waste per capita could be another useful indicator, enabling conclusions to be drawn regarding waste policies.

Eurostat (2016a) reports three indicators (resource productivity, DMC per capita and generation of waste excluding major mineral waste per capita) in its overview about progress towards more responsible consumption and production in the EU. This could be an inspiration for the European Semester process.

Similarly, the EU SDG Indicator Set (European Commission, 2017e) provides indicators for monitoring the Sustainable Development Goals (SDGs) in the EU context. Particularly the

⁷ The development of a proposal for a framework to monitor progress in developing the circular economy is one of the actions mentioned in the European Commission's (2017b) Work Programme 2018 in support of the priority policy area of stimulating investment and creating jobs.

⁸ This stands for raw material consumption.

indicators proposed for SDG 12, on sustainable consumption and production,⁹ could guide the selection of indicators for circular economy-related reporting in future country reports. This would help to streamline reporting over various Commission initiatives.

The table on green growth indicators is the only visible¹⁰ harmonised element of the country reports regarding the circular economy. Most country reports provide some further information, generally in the section on sectoral policies. However, reporting on the circular economy differs significantly, including on topical focus, choice of indicators presented in the main text (if any), level of detail, length, presentation, etc.

A detailed review of all 27 country reports shows that 5 reports completely ignore any aspect related to the circular economy, including resource efficiency, waste and recycling (BG, DK, FI, FR, SI); 18 give an overview about waste management in varying detail; 13 reports explicitly make reference to the circular economy and an additional 6 to resource efficiency.

Only a few country reports take a broader approach towards circular economy issues (e.g. AT, BE, DE, LU and to a lesser extent HR). These reports also include remarks about the policy framework aimed at increasing resource productivity. All other reports deal almost exclusively with waste management and recycling. They report largely about the status quo with occasional references to existing or planned policies and targets, as well as to (policy) barriers to better circular economy progress. There is no common approach to using indicators (other than those presented in the green economy table). While the recycling rate of municipal waste is the most commonly used indicator, some countries also report the landfilling rate of municipal waste. In rare occasions, municipal waste generation per capita and the incineration rate of municipal waste are included. There is no mention of industrial waste. While some reports include concrete figures, others only mention trends.

It should also be noted that only two reports (IE and IT) take a closer look at business and companies. They include indicators such as the share of SMEs investing in resource-efficiency actions, the share of SMEs reducing costs through resource-efficiency actions, and the share of SMEs taking measures in recycling.

Overall, it can be said that the political commitment of the Commission to the circular economy as expressed in the Annual Growth Surveys since 2016 is not visible in the country reports. Indeed, currently the circular economy does not play a prominent role in the Commission's country reports. This can be attributed to several reasons. First, the Semester process and its various publications (e.g. country reports including a table on green growth indicators) were introduced before the circular economy took centre stage in the EU policy debate and before the concept was strongly linked with the jobs and growth agenda of the EU. Added to this, the Europe 2020 targets cover the themes of climate change and energy but not resource efficiency. As a result, in the current form of the reports there is no dedicated section on resource efficiency/circular economy and the

⁹ The indicators proposed for Goal 12 ("ensure sustainable consumption and production patterns") include the following: generation of waste excluding major mineral wastes, recycling and landfill rate of waste excluding major mineral wastes, consumption of toxic chemicals, resource productivity, average CO₂ emissions per km from new passenger cars and volume of freight transport relative to GDP. Complementary indicators of Goal 12 include the following indicators of Goal 7 ("ensure access to affordable, reliable, sustainable and modern energy for all"): share of renewable energy in gross final energy consumption, primary energy consumption – final energy consumption by sector and energy productivity.

¹⁰ The inputs into the country reports may have some systemic/thematic approach, which is no longer visible in the resulting published country reports.

topic is sometimes covered in the section on sectoral policies. Some aspects of the concept are also covered in the table on green growth indicators; however, the table has a broader scope than the circular economy. Moreover, in line with the current structure and priorities of the Semester, the country reports concentrate on identifying pressing risks for structural growth or for sustainable public finances. In this context, circular economy-related issues are usually not prioritised. Additional reasons for the limited role of the circular economy in the European Semester are presented in section 3.

2.3 Country-specific recommendations

The 27 draft CSRs on national reform programmes were tabled by the Commission on 22 May 2017 and approved by the Council of the European Union on 12 June 2017 (PL on 14 June)¹¹ (General Secretariat of the Council, 2017b). These recommendations are supposed to “adapt priorities identified at the EU level (in the Commission’s Annual Growth Survey) to the national level” (European Commission, 2017g). The recommendations “focus on what can realistically be achieved over the next 12-18 months” (ibid.).

The Commission’s drafts are published together with an overarching Communication, which sets the tone for the individual recommendations. Although the 2017 AGS included some elements of the circular economy and sustainable investment (see above), these elements are absent from the Communication on the CSRs. In fact, the Communication does not mention any of the circular economy-related aspects, such as resource efficiency, waste management or recycling. Still, it does give an overview of the policies covered in the individual CSRs. Table 3 summarises this overview and shows that only one country (IE) received recommendations in the policy area of “energy, resources & climate change”. This is the policy area where circular economy topics should be covered. The respective Irish recommendation, however, concerns “public investment in transport, water services, and innovation in particular in support of SMEs”.

The transition to a circular economy plays no role in the individual recommendations themselves. Even the supporting text does not mention the term once in any of the 27 documents. There are in total only three CSRs that contain a reference to circular economy-related issues: for ES on the benefits of resource taxation, and for HU and RO on lacking progress in waste management.

To conclude, the envisaged adaptation of AGS priorities to the national level is not visible in the CSRs from a circular economy perspective. Some reasons why this might be the case are explained in the next section.

¹¹ Notably, “the Council differs on a number of recommendations from the European Commission” (General Secretariat of the Council, 2017b).

Table 3: Policies covered in the 2017 country-specific recommendations

Broad Category	Policy areas	AT	BE	BG	CY	CZ	DE	DK	EE	ES	FI	FR	HR	HU	IE	IT	LT	LU	LV	MT	NL	PL	PT	RO	SE	SI	SK	UK
Public finances & taxation	Fiscal policy & fiscal governance																											
	Long-term sustainability of public finances, inc. pensions																											
	Reduce the tax burden on labour																											
	Broaden tax bases																											
	Reduce the debt bias																											
	Fight against tax evasion, improve tax administration & tackle tax avoidance																											
Financial sector	Financial services																											
	Housing market																											
	Access to finance																											
	Private indebtedness																											
Labour market, education & social policies	Employment protection legislation & framework for labour contracts																											
	Unemployment benefits																											
	Active labour market policies																											
	Incentives to work, job creation, labour market participation																											
	Wages & wage setting																											
	Childcare																											
	Health & long-term care																											
	Poverty reduction & social inclusion																											
	Education																											
	Skills & life-long learning																											
Structural policies	Research & innovation																											
	Competition & regulatory framework																											
	Competition in services																											
	Telecom, postal services & local public services																											
	Energy, resources & climate change																											
	Transport																											
Public administration & business environment	Business environment																											
	Insolvency framework																											
	Public administration																											
	State-owned enterprises																											
	Civil justice																											
	Shadow economy & corruption																											

Source: European Commission (2017h).

3 :: Challenges to integrating the circular economy into the European Semester process

The previous section showed that the Semester process currently takes the circular economy into account only to a limited extent. To identify the main challenges to better integrating the circular economy – and more generally the environmental dimension – into the Semester process, interviews were carried out with experts from EU institutions, national ministries and academia.

A number of key challenges were identified through the interviews. A first challenge stems from the role of the Semester as a mechanism for economic and fiscal policy coordination within the EU with a strong focus on contributing to sound public finances and promoting economic growth. In this context, circular economy/environmental issues and policies would need to have macroeconomic relevance in order to be particularly useful for the Semester. According to the experts interviewed, examples of information that would be relevant for the Semester is whether the circular economy constitutes a major growth factor or barrier, whether it involves significant investment or whether it would lead to job creation. However, there are still limited examples of sources that provide such information, while in some cases there is uncertainty regarding the methodologies and assumptions applied.

An additional key challenge relates to the availability of environmental statistics and indicators. Some of the experts interviewed argued that despite efforts by Eurostat there are still significant gaps hindering the further integration of environmental considerations in the Semester process. One example is data on environmental protection expenditure, which are part of the European environmental accounts.¹² These data are not available consistently for all member states and in some cases, do not cover all types of environmental protection activities and domains (Eurostat, 2016b).

Another example in this context concerns the timeliness of indicators. For example, while data for GDP and its components are published by Eurostat on a quarterly basis and with a delay of only a few weeks, resource use-related data are published much less frequently and with a delay of several years. The most recent data available in mid-June 2017 for GDP was 2017Q1, while for DMC it was 2015. This also means that the Resource Efficiency Scoreboard's headline indicator (GDP/DMC) is only published with a delay of about two years. To be useful for policy-making and for the European Semester process, sustainability-related indicators need to be readily available on a more frequent and timely basis. This will require more political will and emphasis on timely indicator development.

Some experts interviewed furthermore commented that environmental issues have not yet gained sufficient political weight in order to be prominently featured in the publications of the European Semester process. As discussed earlier, monitoring the Europe 2020 targets, including targets on energy and climate change, is one of the key

¹² The European environmental accounts were legally established in Regulation (EU) No. 691/2011 and aim to bring into a single accounting framework information on natural resources and the impact of human activities (Eurostat, 2016b).

objectives of the Semester. Yet, in practice the European Semester mostly looks at issues linked to growth and sustainable public finances, while environmental aspects are not given a high priority. Added to this, the resource efficiency topic is not covered by the Europe 2020 targets. Moreover, recent steps to streamline the process and to produce more incisive and shorter country reports and a smaller number of CSRs pose further challenges to the inclusion of environmental issues in these publications.

4 :: Insights from the EU Environmental Implementation Review

A policy coordination mechanism that has some similarities with the European Semester but aims at improving the implementation of environmental policies across the EU is the Environmental Implementation Review (EIR) launched in 2016.¹³

Improving the implementation of EU environmental legislation is among the priorities set in the 7th Environmental Action Programme.¹⁴ Implementation gaps are not only detrimental to the credibility of the EU and national authorities, they can also entail significant societal costs and harm business activities due to the absence of a level playing field (Ciobanu-Dordea, 2016). For example, Monier et al. (2011) have estimated that the full compliance with EU waste policy by 2020 could increase the annual turnover in the waste management and recycling industries by €42 billion.

With a view to improving the implementation of EU environmental legislation, the European Commission launched the EIR in May 2016 as a tool to “support the delivery of the objectives of existing environmental policies and legislation, while scrupulously securing the equal treatment of the Member States” (European Commission, 2016b, p. 4). The EIR does not replace enforcement procedures based on infringement, but seeks to assess implementation gaps and to establish an open dialogue and collaborative actions. In contrast to the European Semester, the EIR is a two-year process consisting of two steps.

In a first step, the European Commission drafts 28 country reports, which present the environmental situation in the member states and identify national strengths,

¹³ Although this paper looks exclusively at the resource-use aspects of the circular economy and does not cover energy-related issues, it should be noted that another mechanism involving the publication of reports that highlight progress made by member states is the ‘State of the Energy Union’. The mechanism monitors progress towards delivering the Energy Union objectives (see European Commission, 2015). It involves the publication of a ‘State of the Energy Union Report’, which highlights progress made in different areas, such as renewables, energy efficiency and greenhouse gas emissions intensity of the economy (European Commission, 2017i). The publication of the third State of the Energy Union Report has been accompanied by a series of harmonised factsheets for EU member states (see <https://tinyurl.com/y9ftxvd6>). Interestingly, among the key categories of information included in the factsheets is information on the macroeconomic implications of energy activities.

¹⁴ See Decision No. 1386/2013/EU of the European Parliament and of the Council of 20 November 2013 on a General Union Environment Action Programme to 2020 ‘Living well, within the limits of our planet’, OJ L 354/171, 28.12.2013.

opportunities and weaknesses. The reports published in early 2017 all follow the same structure along six topics:¹⁵

- Circular economy and waste
- Nature, biodiversity and soil
- Air quality, water management
- Sustainable cities, international agreements
- Market-based instruments & investments
- Effective governance & knowledge

In addition, each of the topics is presented in a similar fashion. The chapter on circular economy and waste, for example, follows a standardised structure with a section each on measures towards the circular economy, SMEs and resource efficiency, eco-innovation and waste management. Also, indicators and graphs are standardised across the reports. The circular economy chapters include graphs on resource productivity, the eco-innovation index, municipal waste by treatment and recycling rates of municipal waste. Still, similar to the European Semester some data are only available for 2014, raising concerns about the timeliness of data.

In a second step, the Commission publishes the so-called 'EU Environmental Implementation Review package' consisting of a synthesis report accompanied by an Annex and the 28 reports. This package sets the framework for high-level discussions on significant implementation gaps common to various member states.

The first EU EIR package was adopted on 3 February 2017.¹⁶ The synthesis report (European Commission, 2017j) gives an overview of the results of the country reports, structured along the same six topics. In terms of the circular economy and waste management, the synthesis report notes that waste prevention remained a challenge in all member states. It reports that while six member states had already reached the municipal waste recycling target of 50%, nine countries needed to significantly increase efforts to reach this target by 2020. Two member states still had no waste prevention programme. Around half of the member states needed to become more effective in separate waste collection. Inappropriate pricing of residual waste treatment was identified as a barrier to pushing waste towards higher levels of the waste hierarchy. A key governance issue leading to insufficient implementation was the lack of coordination between different administrative levels of environmental issues. This was prevalent in five member states.

Following these general observations of the synthesis report, its annex (European Commission, 2017k) presents a set of concrete policy recommendations, in the fields of the circular economy, resource efficiency and waste, among others. The suggested actions include strengthening the policy framework, better monitoring, facilitating the exchange of good practices, increasing circularity in SMEs, facilitating green investment, etc. All suggested actions are targeted at specific member states. The suggested actions in the field of the circular economy and waste can be found in Annex I of this document.

In principle, the EU EIR can serve as an inspiration for the European Semester. First, it has a clear structure for the reporting of circular economy-related topics, which is reflected

¹⁵ Missing topics include climate change, chemicals, industrial emissions and waste shipment, which are foreseen to be taken aboard the second EIR package to be adopted before the May 2019 European Parliament elections (Meuleman, 2017).

¹⁶ See http://ec.europa.eu/environment/eir/country-reports/index2_en.htm.

in each of the 28 country reports. This structure covers both the topics and indicators used. Absent from the Semester, such a structure provides harmonisation and transparency, and ensures that all reports deal with the topic in a comparable manner. Second, this structure is taken forward in the synthesis report and the accompanying suggested actions on better environmental implementation. This ensures consistency between the country reports and the high-level recommendations – something that is not the case in the CSRs of the Semester. Third, the recommendations of the EIR go into much more detail than the CSRs of the Semester, thus providing better guidance for member state actions. Finally, the circular economy-related data included in the EIR's country reports can have a direct influence on the country reports of the Semester. As such, the EIR can provide pertinent input into the Semester.

However, it should also be kept in mind that the translation of good practice from the EIR into the Semester has certain limitations. For a start, the EIR and the Semester can be seen as complementing mechanisms. It would thus be redundant to copy EIR practice into the Semester. Given that a full integration of the EIR into the Semester is beyond the latter's current mandate, there will need to be a clear emphasis on information with macroeconomic relevance. In addition, the fixed format of the EIR can be explained by its very nature of comprehensively reviewing implementation of existing legislation in different areas of environmental policy. The European Semester, in contrast, largely concerns risks for structural growth or for sustainable public finances, also where the Europe 2020 Strategy is not backed up by legislation in member states. The approach of the Semester, focusing more on bottlenecks and risks, may warrant more flexibility in its structure. Last but not least, unlike the CSRs of the European Semester, the 28 country reports of the EIR are published by the Commission and do not need endorsement by the Council of the European Union. The EIR is thus a more bottom-up process, which can go deeper into implementation gaps and the root causes. This may also explain its more detailed and structured approach to circular economy topics.

5 :: Linking the European Semester with the Sustainable Development Goals

The European Commission intends to fully integrate the SDGs into the European policy framework and the Commission's priorities (European Commission, 2016c). As noted by Renda (2017, p. 14), this would need to result in "concrete action for embedding EU SDGs in the European Semester, in a way that is complementary to fiscal rules". Given that the SDGs include a specific goal on responsible consumption and production (SDG 12), integrating the SDGs into the European Semester provides another potential opportunity for circular economy-related topics to enter the Semester.

Indeed, the important link between the SDGs and the Semester has been recognised by the European Commission in its Communication accompanying the 27 proposed draft CSRs in May 2017. In this document, the Commission notes that "[t]he wider and longer-term vision of the Europe 2020 Strategy and the 2030 Sustainable Development Goals are important to guide action on an annual basis and are key to guide action on an annual basis [*sic*] and are fully integrated in the European Semester" (European Commission, 2017l, p. 4).

Nevertheless, in its current form, according to the European Commission (2016d), the European Semester only reports on and/or provides recommendations for meeting the specific targets in 10 out of the 17 SDGs (see Table 4). For the most part, these relate to various targets included in the Europe 2020 Strategy, for which the European Semester encourages and monitors progress. Notably, the Commission's assessment does not include SDG 12 on sustainable consumption and production, although it could be argued that some targets of this SDG are covered in the 2017 cycle of the European Semester, particularly those concerning waste management (see section 2.2).

Table 4: Aspects of specific SDGs currently covered by the European Semester

SDG	Relevance
SDG 1: No poverty	Europe 2020 Strategy: Headline target to reduce poverty and social exclusion by lifting at least 20 million people out of the risk of poverty and social exclusion. Target monitored through the European Semester.
SDG 3: Good health and well-being	In the context of the European Semester the EU has developed country-specific knowledge on health systems, complemented by its "State of Health in the EU" cycle.
SDG 4: Quality education	Europe 2020 Strategy: Specific "education headline target" to reduce the rates of early school leaving below 10% and to ensure that at least 40% of 30–34 year-olds complete higher education. Targets monitored through the European Semester.
SDG 5: Gender equality	As part of the European Semester, several member states have been receiving CSRs in the area of gender equality, including the availability of quality affordable (full-time) childcare, reducing financial disincentives to work or work more for second earners, the gender pay gap and harmonisation of the retirement age for men and women.
SDG 7: Affordable and clean energy	Progress towards the targets of the 2030 Climate and Energy Policy Framework is monitored – inter alia – by the European Semester.
SDG 8: Decent work and economic growth	Europe 2020 Strategy: Headline targets to employ 75% of 20–64 year-olds and to fighting poverty and social exclusion. Targets monitored through the European Semester.
SDG 9: Industry, innovation and infrastructure	Europe 2020 Strategy: Headline target to invest at least 3% of the EU's GDP in R&D. Target monitored through the European Semester.
SDG 10: Reduced inequalities	The European Semester recommendations aim at structural reforms that can enhance growth, jobs and investment, and thereby also social inclusiveness. This covers e.g. fiscal and structural reform (including social policies), both of which can contribute to reducing inequality.

SDG 13: Climate action	Europe 2020 Strategy: Headline targets to cut greenhouse gas emissions by 20% compared with 1990, to ensure 20% of energy from renewables and to ensure a 20% increase in energy efficiency. Targets monitored through the European Semester.
SDG 16: Peace, justice and strong institutions	The improvement of the effectiveness of justice systems in member states has been identified as a key component for structural reforms in the European Semester.

Source: Own elaboration based on European Commission (2016d).

In its current form, the European Semester is not designed to be an overarching policy coordination mechanism beyond the targets of the Europe 2020 Strategy. For example, it does not cover the seven ‘flagship initiatives’ of the strategy.

Looking beyond 2020, however, there may be an opportunity to adapt the European Semester in an effort to mainstream SDGs into EU policies and initiatives. This may eventually require the Semester to go into more detail regarding individual SDGs and their targets, as well as expanding its coverage to all 17 SDGs. Such a potential expansion would also include the 8 SDGs identified by the European Commission (2016c) as relevant for the circular economy, including SDG 12 on responsible consumption and production.¹⁷ In fact, Renda (2017) argues that member states will only have an incentive to propose reforms that converge towards EU SDG targets once all SDGs are embedded in the European Semester.

In a final step, the European Semester could be transformed into a reporting tool on national strategies for implementing the 2030 Agenda for Sustainable Development (German Development Institute, 2016). These could either be national sustainable development strategies or broadened national reform programmes. This would also require the full implementation of the EU SDG Indicator Set (European Commission, 2017e) in the European Semester.

Alternatively, and if the design of the European Semester cannot be adapted accordingly, the monitoring of SDGs could be divided over various existing (and/or new) policy coordination mechanisms. For example, different sets of the 17 SDGs may be monitored by the European Semester, the EU EIR, the Energy Union and the upcoming monitoring framework for the circular economy. Still, such an approach would need to ensure similar political weight and visibility of the different monitoring mechanisms.

6 :: Conclusions and recommendations

This paper has shown that despite the political commitment of the European Commission and the call by the Council of the European Union to include the circular economy and resource efficiency as well as their growth and employment opportunities in the European Semester, there is currently limited focus on the topic. Our analysis of the 2017 cycle of the Semester has shown that country reports take very different approaches to the

¹⁷ The SDGs identified by the European Commission (2016c) to be of relevance for the circular economy include SDGs 6, 8, 9, 11, 12, 13, 14 and 15.

integration of the circular economy and that the country-specific recommendations contain only limited references to circular economy-related issues. This can be attributed to a number of reasons related to the current structure and emphasis of the Semester, the lack of information of macroeconomic relevance, the availability and timeliness of relevant indicators, the political priorities that originally guided the introduction of the Semester and the fact that resource efficiency was not included in the specific goals of the Europe 2020 Strategy.

While the European Commission has repeated its political commitment to the circular economy in the last three Annual Growth Surveys (2016, 2017 and 2018), the topic is insufficiently or not at all followed up in the country reports and in the CSRs. The circular economy is currently part of the Commission's agenda for jobs, growth and investment, which are key focus areas of the Semester. This would justify greater attention to the circular economy in the Semester process. Therefore, the Semester could be utilised as a tool to encourage governments to take into account circular economy aspects when drafting their budgets and reform policies. At the same time, such an approach would also need to take into account the tension between the short-term needs of political processes and the inherent long-term impacts of the transition to a circular economy.

In addition, the Commission should consider dedicating more coverage to the circular economy in the AGS and going beyond the current spotlight on sustainable investment. In particular, fiscal policies can play a major role in changing the behaviour of economic agents towards more sustainable production and consumption.

There is also a need to take a more harmonised approach to include circular economy-related issues than is currently the case in the country reports and the CSRs. All reports should include an overview about general aspects of resource use (trends, policies, barriers, etc.) and their macroeconomic impacts, for example government finance, the trade balance, employment shifts and macroeconomic imbalances. The level of depth of the analysis should be comparable between country reports and so should the indicators chosen. The eventual introduction of the monitoring framework for the circular economy can also support a better and more harmonised integration of circular economy issues in the Semester. The EU Environmental Implementation Review, although complementary to the European Semester, can give inspiration in terms of scope, structure, indicators and recommendations. Yet, it would be redundant to copy EIR practice in the Semester. Given that a full integration of the EIR into the Semester is beyond the latter's current mandate, there will need to be a clear emphasis on information of macroeconomic relevance.

Indicators used to report developments in the circular economy throughout the Semester should be based on data and other information published e.g. as part of the European Resource Efficiency Scoreboard and the EU SDG Indicator Set. In this respect, statistical offices need to provide timely data to allow for proper monitoring of circular economy-related policies and to enable the formulation of practical and effective CSRs

Moreover, reliable information and data on the macroeconomic impacts of the circular economy are required in order to better reflect the circular economy in the Semester. For example, information on the growth, investment and employment impacts of the circular economy and related policies would be particularly useful for the Semester (at both the EU and member state level). At the present time, there are limited sources that provide such information and consequently there is a need for more studies and assessments in this field. The Circular Impacts project provides some examples of the transition effects of the circular economy based on specific case studies.

Finally, the European Commission intends to fully integrate the Sustainable Development Goals into the European policy framework and Commission priorities. However, the current European Semester monitors only certain aspects of specific SDGs. Looking beyond 2020, there may thus be an opportunity to expand the coverage of the European Semester. This may eventually require the Semester to go into more detail regarding individual SDGs and their targets, as well as to expand its coverage to all 17 SDGs, including SDG 12 on responsible consumption and production. Embedding the SDGs into the European Semester would also increase the incentive for member states to propose reforms that converge towards EU SDG targets. Alternatively, the monitoring of SDGs could be divided over various existing (and/or new) policy coordination mechanisms (the Semester, EIR, Energy Union, monitoring framework for the circular economy, etc.). Still, such an approach would need to ensure similar political weight and visibility of the different monitoring mechanisms.

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Annex I: Suggested actions for member states included in the Environmental Implementation Review package

Table A.1: Guidance to member states – Suggested actions on better environmental implementation

<i>Suggested actions</i>	<i>Member state(s)</i>
Developing a circular economy and improving resource efficiency	
Strengthen the policy framework to speed up the uptake of the circular economy by all economic sectors, providing further support to local businesses and increasing investments in the public research and education systems, especially concerning water and energy savings, waste reduction, the recycling of materials, eco-design and the uptake of secondary raw materials market.	BE, BG, CZ, DE, HR, HU, IT, RO, SE, SK
Implement a better monitoring of the circular economy policies in order to assess their effectiveness and be able to revise them.	PT, SI
Facilitate development and exchange of good practices between all government entities especially at local level regarding circular economy and eco-innovation matters.	BE, CY, EL, ES
Incentivise academia and schools in order to promote circular economy. Raise awareness of the consumers and SMEs on the benefits of circular economy.	IT, PL, SK
Adopt circular economy principles; increase the level of recycling and the use of eco-design in the SME sector, in particular by investing further in education and training. Incentivise resource efficiency measures (e.g. savings of energy and water).	BE, EL, ES, HU, IT, RO, SK
Incentivise investments in green products and services. Facilitate green investments and ease the access to funding. Foster R&D funding among SMEs.	CZ, ES, HU, MT, RO, SE, SK
Waste management	
Introduce policies, including economic instruments (Extended Producer Responsibility, Pay As You Throw schemes), to implement further the waste hierarchy, i.e. promote prevention, and make reuse and recycling more economically attractive. Eliminate free-riding and ensure financial viability of waste management companies.	AT, BG, CY, DE, DK, EE, EL, ES, FI, FR, HR, HU, IE, IT, LU, LV, MT, NL, PL, PT, RO, SE, SI, SK, UK
Shift reusable and recyclable waste away from incineration by gradually phasing out subsidies to incineration or by introducing an incineration tax.	AT, BE, CZ, DE, DK, EE, FI, IE, LU, PL, PT, SE
Introduce and/or gradually increase landfill taxes to phase-out landfilling of recyclable and recoverable waste. Harmonise regional	CY, CZ, EL, ES, HR, HU, IT, LT,

landfill taxes. Pursue the review of the level of landfill gate fees. Use the revenues from the economic instruments to support the separate collection and alternative infrastructure.	LV, MT, PL, RO, SI, SK, UK
Focus on implementation of the separate collection obligation to increase recycling rates and prioritise the separate collection of bio-waste in order to increase composting rates. Establish sites for collection of specific waste (so called 'points for collection of selective waste') in each municipality.	BG, CY, CZ, EE, EL, ES, FR, HR, IE, IT, LT, PL, PT, RO, SK
Complete and update the Waste Management Plan(s) and/or Waste Prevention Programme(s) in order to cover the whole territory.	BE, DE, EL, ES, FR, RO
Finalise the work on the irregular landfills as a matter of high priority.	BG, CY, EL, RO
Avoid building excessive infrastructure for the treatment of residual waste.	BG, CY, CZ, EL, ES, HR, HU, IT, LT, LV, MT, PL, RO, SK
Ensure waste statistics are compatible with Eurostat Guidelines. Improve consistency of data on waste management from various sources (also as to the large gap between waste generated and treated).	CZ, SI
Intensify cooperation between the regions to use waste treatment capacity more efficiently and to achieve the national recycling targets.	ES, IT
Strengthen and empower enforcement capability.	MT, PL, RO

Source: European Commission (2017k).

Annex II: Messages for the Circular Impacts project

Box 1. Messages for the further steps of the Circular Impacts project

The analysis of this paper provides some messages for the next steps of the Circular Impacts project. From the analysis of the 2017 cycle of the European Semester and the interviews with the experts in the field it can be concluded that there is a need for information that can be fed into the Semester process, which is principally a mechanism for economic policy and fiscal coordination. Therefore, in the project's forthcoming tasks, and especially in the task on case studies (WP4), priority should be given to collecting information with macroeconomic relevance that would be relevant for the European Semester and its several publications. Another key message concerns the specific publications of the European Semester that could better reflect circular economy aspects. Specifically, any information produced by the project would be particularly useful for the country reports and the country-specific recommendations, which provide some space for sustainability/circular economy aspects. Thus, the project should aim to produce, to the extent possible, knowledge for impacts at the member state level. Considering that the project will be concluded in September 2018, any information for member states would be particularly useful for the reports to be prepared and published during the 2019 cycle of the Semester. Finally, the methodology and assumptions for calculating any data should be clear and transparent. In particular, the case studies should be focused in order to produce reliable information that takes into account the indirect impacts of the transition (e.g. trade effects) rather than trying to cover all the different sectors and aspects of this multi-dimensional concept. Any methodology produced by the project could provide the basis for future assessments in this field.

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