



House of Commons  
Environmental Audit  
Committee

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**Growing a circular  
economy: Ending the  
throwaway society:  
Government response  
to the Committee's  
Third Report of Session  
2014–15**

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**Eighth Special Report of Session  
2014–15**

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## Environmental Audit Committee

The Environmental Audit Committee is appointed by the House of Commons to consider to what extent the policies and programmes of government departments and non-departmental public bodies contribute to environmental protection and sustainable development; to audit their performance against such targets as may be set for them by Her Majesty's Ministers; and to report thereon to the House.

All publications of the Committee (including press notices) and further details can be found on the Committee's web pages at [www.parliament.uk/eac](http://www.parliament.uk/eac)

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# Eighth Special Report

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The Environmental Audit Committee reported to the House on 24 July 2014 on *Growing a circular economy: Ending the throwaway society* (HC 214). The Government response to the Committee's Report was received on 15 October 2014 and is appended below. On Recommendation 7, the Government states that it would welcome further information directly from businesses on trade barriers for remanufactured goods.

## Appendix—Government response

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### Introduction

The Government welcomes the Committee's report on growing the circular economy. An increasingly used concept, the Government agrees with the Committee's view that it is important we continue to move towards a circular economy and that the Government has a role to play in delivering this. Improved efficiency in the way business use resources, such as energy, water and raw materials, and reducing waste is necessary to improve the environment and protect against the harmful impacts of resource use and waste, including on human health. It also offers significant financial contributions to businesses, helping to improve their competitiveness and provide opportunities for new markets while safeguarding the environment. Such an approach also supports the Government's wider policy aim to promote the sustainable use of natural resources to ensure these continue to be available for future generations.

The Government provided written and oral evidence, setting out the position and activities underway that support the development and delivery of increased resource management and efficiency. This is available at

<http://data.parliament.uk/writtenevidence/committeeevidence.svc/evidencedocument/environmental-audit-committee/growing-a-circular-economy/written/8952.html>.

We would like to take this opportunity to highlight to the Committee the difference between the EU funded WRAP Rebus project, described in paragraph 14 of the Committee's report, and the Defra-funded Action Based Research (ABR) REBUS project, set out in paragraph 15 of the report. The former project with WRAP focuses on new business models and the latter ABR project explores leasing models for baby equipment.

We would also like to clarify that Jonathan Tillson is the head of Sustainable Business in Defra and not BIS, as set out in paragraph 63 of the report.

## Response to the recommendations

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**1. The Government should introduce differential VAT rates based on life-cycle analysis of the environmental impact or recycled content of products, and tax allowances for businesses that repair goods or promote re-use. It should set up a cross-Government working group, led by the Cabinet Office to decide how best to implement such reforms. (Paragraph 27)**

VAT is governed by European law and therefore any reliefs from VAT are strictly limited under this. Member States are allowed to implement a reduced rate of VAT for certain goods and services, as listed in Annex 3 of the VAT Directive. However, there are no specific provisions that allow for actions to encourage the use of recyclable materials and therefore any changes would require amendments in EU law. Such changes would need a proposal introduced by the European Commission and unanimous agreement by all Member States. Recent discussion in this area makes it clear that it would not be possible to reach such agreement.

On tax allowances, it is the Government's view that in general a low corporate tax rate with fewer reliefs and allowances will provide the best incentive for business investment with the fewest distortions. The Government has already introduced Enhanced Capital Allowance schemes for water- and energy-efficient plant and machinery. The Landfill Tax has and continues to play a significant role in meeting the targets set out in the Landfill Directive. Since 1996, when Landfill Tax was introduced, the amount of waste sent to landfill has more than halved. In addition, since 2000, recycling rates have increased fourfold and have been accompanied by large growth in the recycling industry as recycling has become more economically viable. The Government therefore considers that no further reforms to taxation are necessary at this stage.

**2. The Government should reform the PRN scheme to include an 'offset' or lower charge for products that have higher recycled content and ensure that funds generated from the operation of the scheme are distributed to bodies working to enhance materials recovery and product circularity. It should also introduce individual producer responsibility schemes in new sectors to make more producers design products with their end-of-life in mind. The Government should review how processes for environmental protections against illegal disposal of waste might be simplified to encourage businesses to re-use materials. More generally, it should explore the scope for regulating the minimum recycled content of particular products in order to stimulate sustainable markets in recovered and recycled material. (Paragraph 33)**

The Government welcomes the Committee's recommendation and will consider it as part of current work looking at the PRN system. The aim is to better understand where the barriers are to meeting the targets proposed in the recent European Commission package to review waste legislation.

The Commission's proposals are at a very early stage and we can expect substantial changes as negotiations progress. We are currently therefore considering all scenarios to support our negotiation and ensure that we are in a good position to implement the final agreed targets.

Whatever solution we end up with for implementing new targets, the Government believes that the following criteria for a producer responsibility system are desirable:

- have a good fit with the system used to achieve related targets for reducing household waste, reducing its disposal to landfill and for increasing household recycling;
- provide a mechanism for meeting stretching targets that is cost-effective and securely delivers sufficient change to meet targets;
- provide a fair distribution of costs and burdens that encourages innovation and incentivises collaboration throughout the supply chain, where this enhances value in recycle. This may include incentives for manufacturers to produce recyclable goods, and/or for end-users and the waste management industry to preserve value.

We exist in a global market and the global trade in recyclates mirrors the international trade in raw materials and products. The export trade in UK recycle reflects a mixture of both demand from overseas reprocessors (which means that they are willing to pay competitive prices for the recycle) and, in some cases, collections of UK waste material in excess of demand from UK reprocessors/manufacturers. It is important that any amendments do not conflict with trade laws.

Under an Individual Producer Responsibility (IPR) system, producers are individually responsible (financially and/or physically) for their own products at end of life. It is intended to create an incentive for producers to design their products for easier repair, upgrading, re-use or recycling. The Waste Electrical and Electronic Equipment Directive (WEEE) allows for either collective producer responsibility or individual producer responsibility. The Government made a commitment in the Waste Prevention Programme<sup>1</sup> to look further at IPR systems for WEEE, and the emerging electricals Sustainability Action Plan (eSAP) provides an opportunity to explore IPR with industry and other stakeholders.

**3. Local authorities need to tailor their [household recycling services] to local needs, but the Government should give clear guidance that directs local authorities in England towards a more standard approach. This should include separation systems that enable reliable delivery of compatible sorted waste products to all recyclers, separate food waste collections, and a ban on food waste to landfill. (Paragraph 39)**

The Government agrees that Local Authorities need to tailor waste services to local needs. Collection arrangements should be easy for consumers and we want to support services that are effective and easy for householders to follow and that help to improve the recycling rate. Through the Weekly Collection Support Scheme<sup>2</sup> and the Recycling Reward Scheme<sup>3</sup>, the Government is working with councils to deliver more frequent collections and make recycling easier for householders. We continue to support the sharing of best practice and

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1 *Waste Prevention Programme for England* published December 2013, available at <https://www.gov.uk/government/publications/waste-prevention-programme-for-england>.

2 More information is available at <https://www.gov.uk/government/policies/making-sure-council-tax-payers-get-good-value-for-money/supporting-pages/bins-and-waste-collection>

3 More information is available at <https://www.gov.uk/government/publications/recycling-reward-scheme-2015-to-2016-bidding-form-and-prospectus>

joint procurement across Local Authorities to help councils reduce costs and drive up quality and value. We would encourage councils to work together to standardise services and maintain frequent collections where this can help to improve quality and delivery and save money.

The Government is committed to meeting the EU 50% target for recycling of household waste by 2020 and we are looking hard at the role of household waste collections in recycling performance, including how to help those Local Authorities with lower recycling rates to improve.

Work to improve the quality of recyclate has already been taken forward through the implementation of ground breaking regulations to promote transparency in quality of recyclates separated at materials recovery facilities. Separate collection will also be the default system from January 2015, though councils may continue co-mingling when separate collection is not necessary to provide a sufficiently high quality of recyclates, or where separate collection is not technically, environmentally or economically practicable.

In addition, the Government has funded WRAP to undertake projects and provide guidance for Local Authorities on best practice models for the efficient and effective collection of food waste. This includes helping to reduce cost of collections and increase the amount of food waste going to Anaerobic Digestion. The Government has no plans to compel councils to adopt household food waste collections, the provision of food waste collections has increased, and WRAP guidance can assist local authorities who are considering introducing such a scheme.

**4. The Government should set out plans to ensure eDoc's long term future so that it can fulfil its role in improving data quality on waste materials. It should set a deadline by which time reporting in this way will be mandatory. (Paragraph 42)**

The Government welcomes the Committee's support for the eDoc system, the ownership of which will transfer to Government at the end of this year. Together with Scotland, Wales and Northern Ireland, the Government is committed to sustaining the eDoc system for the foreseeable future, with a view to encouraging a digital by default approach across all businesses. We are continuing to engage and seek support from the resource and waste management sector through the eDoc Technical Advisory Group, CIWM and WRAP. We will work with the industry to consider whether a mandatory system would be appropriate and beneficial and economically viable for both the sector and to Government.

**5. The Green Investment Bank should finance innovative technologies to support a circular economy. The Bank could for example showcase the potential of anaerobic digestion plants which are able to process a range of waste feedstock sources by investing in such projects. The Government needs to ensure that its policies for recovering resources and generating energy are aligned and are consistent with the waste hierarchy. (Paragraph 45)**

Businesses need to drive the change to a more sustainable and growing economy. Many are leading the way on becoming more resource efficient, but we want more to act and take advantage of the financial and environmental benefits, especially SMEs, and along supply chains.

To support businesses, the Government set up the Green Investment Bank (GIB) to mobilise additional private sector investment into green infrastructure projects, helping to address specific market failures relating to the limited availability of finance in these sectors. This is aligned with and supports other Government policy measures designed to promote the circular economy.

The GIB is actively investing in the waste sector and has supported a number of projects that deploy a range of technologies, including anaerobic digestion and new technologies not previously used in the UK. In 2013, GIB published a market report describing and assessing the anaerobic digestion market and examining the opportunities for investment in it.<sup>4</sup> In addition, GIB published a market report in July 2014 on the residual waste market examining the opportunity for investment in that sector.<sup>5</sup>

The Government remains clear that any action on resource and waste management will continue to be guided by the waste hierarchy. This includes the prevention of waste where possible, recovering resources for re-use and recycling and, where appropriate, energy recovery as a preferred option to landfill/disposal.

**6. The Government, working closely with the EU, should establish eco-design standards across a range of products. It should set out the steps towards a ban on products that are made from materials that cannot be recycled, or reduce taxes on those that can be. Such standards would phase out inefficient products or hard to recycle materials by ensuring that companies design products that are consistent with the circular economy, have a clear end-of-life recovery route and are fabricated using easily separable and recyclable components. The Government should underpin voluntary agreements by setting timescales by which regulation would establish the recyclability of all products coming on the market. The Government should also work with industry sectors to set longer minimum warranty periods for consumer products to encourage businesses to adopt more resource-efficient business models. (Paragraph 51)**

The Government agrees that the Ecodesign standards for energy-using and energy-related products can play a valuable role in moving towards a more circular economy. We welcome the draft standardisation request on material efficiency issued by the European Commission on 3 July 2014 to CEN and CENELEC, the European bodies which draw up standards to support the Ecodesign process. We will continue to influence the European Commission to incorporate waste prevention requirements in Ecodesign and Ecolabel criteria where appropriate. However, we do not have any plans to require the recyclability of all products coming onto the market and any proposed regulation should be proportionate and provide businesses with the flexibility to develop in a global market.

As part of WRAP's development of an electrical and electronic equipment sustainability action plan (eSAP), we are working with industry to investigate options for extended warranty periods on electrical and electronic products and the contribution that more resource-efficient business models can make. WRAP has also developed product design guidelines for key electrical appliances in consultation with the Electrical Products

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4 Green Investment Bank: Anaerobic Digestion Market Report, <http://www.greeninvestmentbank.com/media/5188/ad-market-report-june-2013.pdf>.

5 Green Investment Bank: The UK Residual Market <http://www.greeninvestmentbank.com/media/25376/gib-residual-waste-report-july-2014-final.pdf>

Pathfinder Group of retailers, manufacturers and their representative bodies. This enables industry to specify design requirements to tackle common problems to reduce the cost and resource impacts of the early failure of products. Work is underway to integrate the guidelines into retailers' technical specifications and buying activity.<sup>6</sup>

While we agree in principle with the Committee's views of the potential benefits for the extension of warranties on a voluntary basis, we recognise that it will be at direct cost to businesses. These sit alongside consumer's statutory rights, which cannot be undermined.

**7. [The Government] should take steps to remove trade barriers for remanufactured goods through trade negotiations, including pushing for them to be treated in the same way as new products. (Paragraph 55)**

Trade barriers are a key component of the Government's trade negotiations. The Government consults with businesses on their priorities for trade agreements and continues to be involved in the ongoing work at EU-level to remove trade barriers and improve market access for businesses. We would welcome any further information that businesses can provide on any problems they have encountered. To this end, the Government would be happy to meet with the companies involved and any trade body that is active in the area of remanufacturing.

**8. The Government should extend buying standards to include a greater emphasis on the recyclability of materials and recycled or re-used content. (Paragraph 58)**

The Government Buying Standards (GBS) are one of the mechanisms that can help embed circular economy principles into procurement, but not the only one. To support this work, we are working with WRAP to develop approaches that involve new business models such as leasing of products. In addition to this, the Government is working with WRAP and the Aldersgate Group to explore the potential to embed such an approach into the centralised frameworks developed by the Crown Commercial Service, looking specifically at mobile phones.

We recognise that the GBS can contribute in terms of creating a demand for recycled products/material and recyclable products. The current GBS for paper and paper products, ICT equipment and for construction projects encourage procurement of recycled or re-used material as well as recyclable products.

In addition to this, the Furniture GBS, updated in June 2014, requires Departments to look to buy used furniture from within Government before any new furniture purchases are made. All new purchases of standard furniture should be refurbished furniture, if available, or otherwise from a core list of standard items designed to facilitate reuse and refurbishment. A Crown Commercial Service framework is also in place for refurbishment of furniture.

The GBS for food and catering was updated in July 2014 and requires certain standards of waste management and, through a 'balanced scorecard' for evaluation of tenders published alongside this, gives contractors who use more recycled materials, such as packaging, recognition for this in the bid evaluation process. The Government is currently working to

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<sup>6</sup> Further information is available at [www.wrap.org.uk/betterappliances](http://www.wrap.org.uk/betterappliances).



update the standard on textiles and will draw heavily on WRAP's research on the means of supporting durable and repairable products.

**9. The Government should learn from the strategic vision and ambitious targets that other countries have adopted. It should embrace the EU's ambitious targets for improving resource productivity, and support business in achieving the economic and environmental benefits. It should also support the European's Commission's proposals for recycling and the accompanying proposed targets, and use these to drive change. (Paragraph 70)**

The Government supports the overall ambition and vision behind the EU Communication on Circular Economy, calling for a move to a more circular economy and to minimise waste. We agree on the need to support future actions to reduce production and consumption impacts, to improve the use of natural resources, and reduce negative impacts on eco-systems.

The Government is keen to make sure that the Commission's proposals are developed with Member States, allow flexibility, ensure that costs are justified by expected impacts, avoid unnecessary burdens on business and create an environment that welcomes innovation. To ensure this happens, the Government will continue to work closely with the industry throughout the negotiation period.

The Government recognises the value of sharing information and learning from what other Member States, and more globally, are doing. We continue to work closely with the European Commission and other Member States, both at a formal and informal level, as well as key stakeholders here and across Europe to exchange ideas, case studies and best practice in both directions.

**10. The Government needs to ensure that there is sufficient funding available for agencies such as WRAP and the Technology Strategy Board to support this transition. Some of the revenues from the Landfill Tax and taxes on non-circular products should be used to directly support the circular economy and reverse the cuts in WRAP's funding. (Paragraph 71)**

The Government, as with all sectors of the economy, is facing challenging times and priorities must be made to ensure that work undertaken makes the best use of public funding. With that in mind, the Government continues to support both the Technology Strategy Board, now Innovate UK, and the Waste & Resources Action Programme (WRAP). This is essential to support businesses in realising the benefits of resource efficiency and to incentivise business-led technology innovation and research and development.

Like all Government tax receipts, Landfill Tax revenues go to the Consolidated Fund to support general expenditure on public services, allowing the Government to allocate resources most efficiently across the economy. Hypothecating Landfill Tax revenues could lead to inefficiencies and impact upon value for money for the taxpayer. A percentage of Landfill Tax revenues already go directly to improving the environment surrounding landfill sites through the Landfill Communities Fund (LCF). The LCF allows landfill site operators to claim a credit against their Landfill Tax liability for voluntary contributions

made directly to environmental bodies. Since its introduction alongside the landfill tax in 1996, the LCF has provided £1.2 billion in total funds for community projects.

**11. The circular economy must be embedded into industrial strategy, based on resource risks and covering key sectors. Local Enterprise [Partnerships] should identify steps to mitigate these risks and opportunities to innovate. It should also be mainstreamed into departmental business plans, with clear responsibilities for driving this forward in both BIS and Defra and across Government. (Paragraph 72)**

Working with business to deliver a sustainable economy is embedded across Government. We agree with the Committee's recommendation that moving towards the circular economy should be an integral part of Departmental Business Plans.

In the Environmental Audit Committee, Seventh Report "Sustainability in BIS" the committee made the following recommendation: *BIS should review its Industrial Strategies (IS) to ensure that they represent a sustainable development approach across the 11 sectors as a whole. If necessary, it should redraft and reissue them to demonstrate where and how the Government has made any trade-offs between economic growth and climate change mitigation.*

Acknowledging the recommendation, the Secretary of States for the Departments of Business, Innovation and Skills, Energy and Climate Change and Environment Food and Rural Affairs have invited the Green Economy Council to independently review the sustainable elements of the industrial strategies and make recommendations. This work is now underway and will be fed back to the Committee as part of the Government response. At this stage, the Government will be in a position to review if additional work concerning sustainability issues within the industrial strategies is necessary.

In developing their Strategic Economic Plans, Local Enterprise Partnerships have sought to address the challenges of sustainable growth, however these plans are the responsibility of local partners themselves, they determine their own local priorities for action taking account of the opportunities for local growth and jobs.