



Environmental Audit Committee

Oral evidence: [Growing a circular economy](#),
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Members present: Joan Walley (Chair), Neil Carmichael, Mr Martin Caton, Zac Goldsmith, Mike Kane, Mark Lazarowicz, Caroline Nokes, Dr Matthew Offord, Mrs Caroline Spelman, Dr Alan Whitehead, Simon Wright.

Questions 198-216

Witness: **Janez Potočnik**, Environment Commissioner, European Union gave evidence.

[This evidence was taken by video conference]

Chair: We are starting our official session of the Committee's inquiry into the circular economy. Thank you for making yourself available, Commissioner. You are among friends. We have a virtually full contingent of members of the Environmental Audit Committee, including the right hon. Caroline Spelman. I know you have worked very closely with her.

Janez Potočnik: I know her very well.

Q198 Chair: Exactly.

We have had three sessions in our inquiry already. We are keen to focus attention on how to promote the circular economy in the UK. We are very keen to align our recommendations as much as possible with the movement that is going on in the European Union and the work that you are doing as Commissioner. We were very interested in the theme you had last week on green week. It would help us if you could summarise the aim of the resource-efficiency initiatives that you have and the role of the circular economy in that. If you cannot hear me, please let us know.

Janez Potočnik: I can hear you well and I hope you can hear me.

I shall explain the purpose of the overall activity connected to resource efficiency and the circular economy, because the two things are not exactly the same. You can be very much resource-efficient in a linear economy, but just to a certain extent. If you really want to do the whole job, you need to move from resource efficiency to close the loop, and actually that is going to the circular economy.

Whenever I try to explain why this is so important, I try to do so in a way that takes the overall global picture into account. You have probably all learned that we are currently 7 billion on the planet, and we are getting used to the fact that we will be 9 billion in less than one generation. I will try to translate those figures. In one generation, we will have on the planet an additional 2 billion people, which is more than the overall population at the beginning of the 20th century, when it was 1.5 billion. That is more than 200,000 per day. That is the equivalent of Germany—the biggest country in Europe—in approximately one year, and of my country, Slovenia, in nine days and six hours. That is as far as the figures go.

That is about population growth, and the second part is connected to the growth of consumption per capita. McKinsey estimates that, by 2030, 3 billion people who are currently living in poverty will join the middle-class level of consumption. If you take into account that, all in all, that would mean that we would need something like three times more resources than we use today to 2050—70% more of food, feed and fibre to 2050—we would likely be around 40% short of drinking water in 2030. If we take into account that already today we are using approximately 60% of our ecosystems in pretty much unsustainable ways, that makes a pretty simple conclusion: how we produce, consume and live will have to be changed. This is a story that not everybody would like to hear. It sounds a bit too critical and environmental.

If you want, we can look at the same story from the competitiveness angle, because this is the story that everybody at least tries to understand. Why? There are four reasons from the economic and competitiveness side why resource efficiency and a circular economy are necessary. The first is that, in the European Union, we are very much locked in an old traditional system. Basically, it is emerging from the industrial revolution, which started in the United Kingdom, and that industrial revolution still has roots locked into the structure of our economies, infrastructures, financial systems and business models. Practically, you would find a lot of lock-ins. In Europe, we still use approximately 15 tonnes of materials per person yearly. Five tonnes of that becomes waste, and half of that goes to landfills and is practically lost for ever. That is the first reason.

The second reason is resource prices, after a century of decrease, with the exception of two world wars and an oil crisis, when we saw resource prices falling. Looking at the beginning of this century, we call it a hockey stick, because from 1998 to 2011, there was an increase of approximately 300 on the index—it is a really stiff increase. How does that compare with the previous century? In the previous century, the labour price was growing, which was why companies focused a lot on labour productivity. Due to that, we have today companies that do not use labour power any more. They do not need workers because everything is done by technology. The real problem today is not the growing price of labour; the real problem today for the competitiveness of companies is the growing price of the resources that they are using.

The third argument is that in the biggest European economy, which is Germany—I have the data from its industry—18% of costs can be connected to labour and 43% can be connected to resource costs. That means that even today, in the cost structure, the dominating factor is connected to resource productivity, not labour productivity. Yet still all of us

economists talk a lot about labour productivity and do not talk about resource productivity or total factor productivity. They are simply not on our screen.

The final argument—perhaps the most important—is that competitive Europe is extremely eco-dependent. Currently we import 60% of our energy, with the threat that that is likely to grow. If you take the chemical periodical system, I can show you how much of which elements we are importing. Practically everything that we use for the high-tech products that we produce in Europe is imported. Taking that into account, the conclusion is that it makes broader sense to produce products using less water, fewer raw materials and less energy.

Basically, producing products that are reusable and can be recycled makes more economic sense. That is why if you go through the logic of the competitiveness story, you come to the same conclusion: changing how we produce and consume is actually the best way to keep European industry in Europe. That is why I firmly believe that all the things that were part of the green week that you mentioned and to which we have devoted a lot of time in Europe by mandate are basically about European competitiveness and necessary structural reforms that we need to embrace as part of our political activities. That was a bit of a long answer, but that is the whole philosophy that is behind this.

Q199 Chair: It was a very thorough answer, and it is really important for us to have the philosophy behind this influencing and informing the report that we will do.

Just to go on from there, are we talking about doing all this in one fell swoop, as it were, or are we talking about something incremental? How do you link the vision with the realistic time scale in terms of policy initiatives that will get you to where you want to be with the road map?

Janez Potočnik: That is a very good question—it is, in essence, something that we have to address seriously. You can do a lot with incremental changes. As I said before, even if you follow the linear economy and efficiency improvement, the estimates of the same McKinsey study are that you can fulfil or follow approximately 30% of all the resource needs to 2030. It is important that together we do everything possible inside the system that we are currently still using.

My worry is that that will not be enough. We will absolutely need to switch to another gear. Probably you would need some additional new revolution in your country—and not only in your country, because we will need it globally. It is simply a story that is inevitable, and the longer we wait and protect the unprotectable instead of investing in the new reality that is waiting out there for us, the more problems we will have and the fewer benefits we will draw out of the enormous opportunities that are lying ahead for new economic development and new job protection.

Q200 Chair: I think what you are saying about how we should not protect the unprotectable is really interesting. That manifests itself in all kinds of ways in terms of existing jobs, jobs that are at risk and resistance to the change of gear and the step change that

you are referring to. How is what is being done in Europe linking to that, and how are we getting on board the larger manufacturers, which might be resistant to some of it?

Janez Potočnik: Again, that is the right thing to ask. The fact is that the transition is, as I said, inevitable. The speed of the transition is, in many cases, not decided only by innovation. Even if the innovation will play the crucial role, this will be decided also by the resistance—by those who will have to change. That is why it is really important that we do this kind of transition in a way that embraces everyone and takes care of those who will, through the transition, basically lose most. That is why all the social policies and all the efforts aimed at actively, with policies, helping this transition are about everyone being able to find a new opportunity after losing something unprotectable. I think that is an important part of the success of the transition.

Q201 Chair: In terms of that transition and the resistance that you refer to, we are a number of weeks on from the European elections, in which we saw quite a lot of disengagement from and resistance to what is happening in Europe. Do you think that that is part of the whole agenda in terms of how we have this informed debate and encourage people to come on board with what is a very difficult agenda to achieve?

Janez Potočnik: Absolutely; I agree with you. I was not the happiest person following the debates that proceeded some weeks ago, and I think that basically we are not doing ourselves a favour, but unfortunately that is sometimes how we act.

We have ahead of us a very serious challenge when it comes to the development that is coming. It is not only to combat climate change, which is absolutely serious, but relating to the natural resources limits that are out there. A century ago, when there were, as I said, 1.5 billion people on the planet, that did not really interfere with the global balance of the planet, and the responsibility of each person, collectively and individually, was totally different from how it is today for you, me and all of us collectively. Put simply, this is too serious—think if we were to try to ignore it.

On the one hand, I am optimistic; on the other hand, I want to be a bit cautious. I am optimistic because, frankly, when we started this debate five years ago, not a lot of people were talking about these issues—resource efficiency, natural capital, the structural changes needed, a circular economy and so on—but now I am practically getting weekly a few invitations from various parts of Europe and of the world where people would like to discuss these issues, seeing them as among the core issues in the challenge that we are all together facing. So I think that things are moving.

On the other hand, we politicians need to move up a gear. When I was with some colleagues of yours at Rio+20, I was a bit struck by the fact that not only civil society was, with its awareness, ahead of us; the business sector was also ahead of us. It was we politicians who were lagging behind in understanding what the challenges are. Maybe there was too much listening to the voice of incumbents and others who simply, of course, have to follow their own interest. As I said before, I think it will be really important to listen to them, but at the same time to give a clear political vision of where we have to go if we want to live

in a sustainable world and if we are to be in a position to guarantee to European industry that it will have good conditions in Europe in which to compete.

Chair: I will turn shortly to Caroline Spelman, who was actually at Rio+20—

Janez Potočnik: I know. That's why I mentioned it.

Q202 Chair: You are talking about a new environmentalism, which to some extent is now much more embraced by business as well. You just mentioned how innovation is going to be part of the means of bringing about the circular economy that we want to see. Will you say how much you believe that integration incentives from Government as well will help to shape the new policies that we need on the ground?

Janez Potočnik: Obviously that needs some serious engagement from us, from politicians. Without that transition, it is simply not possible. Maybe I can tell you in a sentence what I consider to be new environmentalism, although I do not want to say that the old, traditional environmentalism, which involved a lot of energy and passion in protecting nature, is dead. No, I think it is still alive, but new environmentalism basically means that if we seriously want to protect the environment and nature—the planet on which we are living—we cannot do so without going seriously in depth into how we produce and consume, and in depth into the roots of economic theory. That is one of the basic things that we should not forget.

On the other hand, if we are also serious about talking about future growth possibilities—development possibilities or future jobs—doing that without taking into account the boundaries of the planet is simply unreasonable. Major opportunities for development are basically emerging from the very fact of life that we will need to do things differently. We will need a kind of different revolution, coming from the point of view that we will need to respect things in a different way. So this is a kind of new environmentalism. It is the recognition that environmental protection and health protection and economic development are two sides of the same coin. Flipping that coin makes no sense. We simply have to recognise the integration of environmental concerns into not only industrial policy, but transport policy, energy policy, fisheries policy, agricultural policy, trade policy, research policy and so on. It is an absolute necessity.

In the past—I am simplifying a bit—with how we were doing environmental policy, each one was following their own interests. When everyone who was, of course, doing a hard job during the day came home in the evening, they took their suit off and he or she wanted to have clean drinking water. Everyone also wants to breathe clean air. Suddenly these public goods were not around any more like they were in the past. We then introduced strict laws, but those strict laws were in conflict with existing reality and with the economic structure. That is why it is perfectly normal for you to see the environment in a way that it is limiting economic development, because it was conflicting with some investments. They were done in good faith and with good intentions, but suddenly those investments were found out not to be basically the most sensible and logical ones from the point of view of longer term sustainability.

That is why integration is so important. That is why I firmly believe that if we have that integration, we will certainly avoid some of the potential conflicts. Also, somehow, we must address the question of how to avoid, basically, the conflict with industry. It is a bit like curing or preventing a disease. First, curing the disease is two times worse than preventing it, because the option is more expensive—it is much cheaper to prevent the disease. Secondly, if you are ill, the damage is done. That is similar with the philosophy that we have embraced with environmental protection. That is why I am convinced that the only way is to integrate the policies and that the more honest we are with the integration, the better the results from the point of view of economic growth and job creation.

Chair: Thank you. How we do that integration is what we want to focus on.

Q203 Mrs Spelman: Janez, it is very good to see you. What you have just described is something that we would say in English is a no-brainer. When resources are increasing in price, then resource productivity becomes a no-brainer, something that you have to do. However, only a minority of businesses seem to have changed their practices to take account of that—a handful of companies at a global level that embrace a circular economy. You said that the main barriers are embedded practices and mindsets. What do you suggest that we could do together, as member states, collectively as a European Union that might alter that?

Janez Potočnik: Good to see you, Caroline. I remember very well the good co-operation we had. You are right, it is a no-brainer, but that could also mean that we humans have no brains, because we do not want to respond properly to the challenge we are facing.

The structures that are there—there are interests that do not want things to change. The major challenge—from lots of examples, which we are seeing more and more—is that we should basically change to a kind of a mainstream. So good examples of mainstream change which are here today should become the prevailing development in future.

How could we achieve that? You know about the road map which we adopted, and we are in the third year of its implementation. The next step is a new protocol which we will talk about in a minute. We are currently implementing the road map and there are many important things we can do. For example, the things we are focusing on are how it could become part of Governments' policy process. So recommendations would come broadly to the member states about, for example, a shift in taxation from labour to water resources and pollution. How do we remove environmentally harmful substances where everybody has agreed for years that they make no sense? It makes no sense that we are in a way keeping those substances and rewarding people for it, and it makes no sense from the point of view of the budget, because that money can be most easily saved at a time of tight budgets in Europe.

There are now other things, for example, public procurement, which we tried to stimulate, especially innovation in waste management, water management and the health sector. There are many things where we believe that if we bet on that and give more support to those activities we would become the front runners, not only here but we would globally position ourselves in a situation which would give us an enormous advantage. We are seeing the situation in major economies globally, in particular China, and you would really have to be blind not to see that the major economic opportunity for development in those countries

will come from those sectors. They have an enormous problem with good water and air quality. We are advanced on those issues and we could be major exporters—selling the value added that we have through the knowledge we have developed in the European Union. These things are simply inevitable in China, because it is becoming so serious that the question is whether the political elite can survive, not whether the citizens will tolerate it or not—they are not tolerating it even today. It is important to see where the world is going and how fast it is changing.

Q204 Mrs Spelman: You use the example of China, where the state is obviously making a significant investment in a more sustainable, resource-efficient economy. Business will have to make significant up-front investment to change some of its embedded practice. Should we expect our businesses to bear the entire cost of that, or should others share in the cost of that investment?

Janez Potočnik: We have a lot of public funds. As I mentioned before, if you adjusted environmental subsidies positively to support the new visible trends, that money would be used much more wisely. There are many European funds that you can activate and try to channel in a direction to support these developments more. I am trying to do my best in this next financial perspective—2014 to 2020—in which we have tried to be clear about how important resource efficiency, climate change and those issues are. They will also be addressed through the mechanisms we have in the pipeline.

On what will be important, to give you one example, in waste handling, a lot of public money and good organisation needs to go to separate collection. When you do the things properly, then of course the private companies see the potential for profit in continuing to use those materials and making new ones out of them. In many cases, this change happens relatively fast when fundamental conditions are reached. Of course, it is important to have the backing of public engagement and public funding to reach those fundamental conditions. That is why the real message coming from policy makers is that we understand the challenge ahead of us and that we support funding for those types of policies. That is of fundamental importance. You could talk about the EEIG and Europe and all those institutions that are extremely important in that. We are looking hard at how to get to the next step of funding possibilities and support.

Q205 Mrs Spelman: What single thing would send the clearest signal to business from Governments that we are serious about transitioning to a circular economy?

Janez Potočnik: That is a good question. We are looking to switch to something that I will try to propose in the new package that will be adopted at either the end of June or beginning of July. It is about how to give the political message. We currently have a target and indicator for labour productivity, and we have gone a really long way in increasing labour productivity. Some countries have other indicators: Germany, for example, also has a target for resource productivity. Labour and resources are two major pillars in the cost structure of any company. We may have very much exhausted the labour productivity part, but we have enormous reserves in resource productivity.

That is why I would recommend the resource efficiency platform, the platform that I have constituted with the majority of the representatives coming from the business sector, but also some Ministers, Members of the European Parliament, NGOs and civil society, so it certainly has high level representation. One of the clear recommendations was that we should try to introduce a resource productivity target. The best proxy would be to use RMC—raw material consumption—compared with GDP, because it is simple. It is constituted from domestic and imported materials, so imports do not bias the numbers. EUROSTAT are already producing it for quite a few member states. We have checked with EUROSTAT to see whether they can produce it for the rest and they said that they could do it relatively quickly. If at the same time we had two pillars which we will follow—labour productivity and resource productivity—and one of the recommendations was that, from now to 2030, we would increase that resource productivity by a minimum of 30%, that would be the message that we would give.

I think that that would need to be prominent in the next review of the strategy Europe 2020, which will be under the next Commission. We will not be in charge. I will try to create the possibility that they would adopt that recommendation. I have been working on it for the past four years, with a lot of analysis and a lot of consultation with stakeholders and so on and we came to that conclusion: simple, clear and receiving political attention. It would be a target that obviously would not be binding. It would not go sector by sector. It would be like our 3% R&D investment target. You know that in 10 years we did not tell any country that this would be binding on them. It is not country by country, but it is a kind of political signal that we think that investing in R&D makes Europe's standing better. The same would be the signal about the resource productivity. So if we could give a political signal and each country would then internally start to work by itself on how it can best be translated into its economic structure, that would be the policy that I would follow.

Chair: I just need you to give me some advice, Commissioner. I understand that you are available for another half an hour. Is that correct?

Janez Potočnik: We can continue.

Chair: Okay. We have four very specific themes that we wish to pursue from my colleagues here, and I will turn to Mike Kane.

Q206 Mike Kane: Commissioner, forgive me for starting with the English idiom of carrot and stick, but what is the balance in your opinion that needs to be struck between legislative initiatives and voluntary initiatives?

Janez Potočnik: You need both. I am always as pleased as I can be when we manage with any company or sector to agree any kind of voluntary activities which are bearing fruit. Many of them are bearing fruit. I believe that you are right about the carrot and stick approach. All the things that are connected with supporting the right ways of innovation and public procurement are good carrots which one can and should use in that process. When I am talking about the target that I mentioned before, I should say that I do not consider it to be a stick. On the contrary, this is a positive target. It is not a target to limit something. It is a target for how you increase your competitiveness and how you limit your costs. I do not

consider it to be a stick approach. I would rather see it as an agreed political vision to which we then commit with different sticks and carrots. That is how I would work.

By the way, I am a firm believer in the market economy. But there are many things in the market economy which today are not working perfectly. The prices on the market are not correct for all the resources that we are using. Some resources, such as chemicals, are more rewarded than others that we are using. Bonuses to CEOs are given on very short-term logic, rather than long-term logic, so a lot of things on the market need to be improved.

I also believe that the EU needs to look into the essence of good regulation. For me, regulation that says “not bad” is only bad regulation. If you want a clear explanation, we are starting the world football championships in two days’ time, and the best example would be from that area. Football is like a global market. If you ask the best players on the field whether they would like to have a good referee and clear rules of the game, their answer would be yes. Their answer is, “If we want to be the best players, we want to have clear regulation on the field.” If you don’t have that kind of regulation, what prevails on the field, or in the market if you wish, is chaos: the most aggressive ones have their way. We live in a world in which we would like to take care of social security, in which we would like to care for elderly people and in which we would like to live within the boundaries of the planet, and those are the things that have to be taken into account. That is why I believe that combining a market economy with good regulation makes common sense.

Q207 Mike Kane: Thank you. I have a very successful chemical import-export business in my constituency. That industry is governed by European standards, but those standards are often interpreted locally. They have recently been having problems with the way the UK has been interpreting those standards. How do we create a level playing field across the EU for the circular economy?

Janez Potočnik: With the chemical industry they are probably referring to the new legislation that we introduced some years ago after plenty of lengthy discussions—it is called REACH. When we reviewed the legislation, we did not want to change it. I firmly believe that there is still time to sterilise the legislation. Everyone should embrace it and implement it in the best possible way. Of course, we introduced that legislation with good reason. Simply, we want to take care of the planet because you, me and everyone is using a lot of chemicals, and we want to protect the environment.

You ask the right question: how will we create equal conditions across the world? What we are seeing is that in China, for example, they are pretty much copying the REACH legislation, which means that if we take things on board and do it at EU level so that it has critical mass, the chance that those kinds of standards will also be applied by the rest of the world is pretty high. That is exactly what I think will start to happen with the chemical legislation. There might be delays in some countries, but it is absolutely the way to go. When we now discuss a treaty with the Americans, this will obviously also be an important part of those discussions. What kind of standards will we have, and how will we make them comparable? How do we ensure that the big market that we will collectively create takes those things into account? Taking care of that is an important part of all our regulation. At the

same time, it is also our responsibility that all the chemicals that we have developed are used to benefit all of us.

Q208 Mike Kane: This is my final question. Do you think the European election results will have any impact on this area of work?

Janez Potočnik: I sincerely hope not, because no election can change the challenges that humanity faces. Chemicals are a very important part of our life and we profit a lot from their various uses, but everybody understands that we need to manage the connected risks—not only with chemicals, but with many things with which we have to deal. With everything that we are addressing, it is a question of how we manage the risks. I believe that we are smart enough that one election or another will not change that.

Chair: My colleague Zac Goldsmith will now delve a little more into REACH and other related issues.

Q209 Zac Goldsmith: The Commission is about to release a new package on waste regulations. Many EU directives, such as REACH and WEEE and so on are aimed at managing health and safety by controlling harmful substances. We have taken quite a lot of evidence in previous sessions about the unintended consequences of these regulations. For example, we heard from Axion Recycling a few sessions ago, particularly in relation to producer responsibility. I don't want to bore you by quoting too much, but the nub of what they said is: "In a system where all producers pick up an equal cost per tonne for dealing with the end-of-life waste treatment system based upon market share, there is no incentive for any single producer to invest in making changes to their own business model which will help to increase 'recyclability' products." What they are referring to is the emphasis of European Union waste policy on producer responsibility.

Just before I ask you to answer, we also had evidence from Sir Ian Cheshire from Kingfisher, who told us: "I can apparently sell a power tool all the way down the value chain to a customer but if I want to take it back and repair it I have to have a WEEE certificate and become a licensed waste carrier, and frankly the economics don't work. That is completely nuts and there are similar issues with recycling plastics on REACH. It is a classic inadvertent consequence because the regulation was done without any concept of circular economy in mind." It would be really interesting to hear from you how such problems can be avoided as you develop the next stage in terms of waste policy.

Janez Potočnik: You will certainly not get the answer to all specific issues like the ones that you mentioned. If it is connected to the WEEE regulation and the things that make the programmes, we absolutely need to address those issues separately, but we need to address them. I am absolutely not denying that the kinds of cases that you mentioned are not also part of the reality; it is simply the fact that when you regulate you cannot predict the full extent each specific situation.

Let me try to explain how we envisaged that the regulation would work. We think that the reality in Europe today is that some countries are already exceeding the 70% recycling target. Some five or six have less than 3% landfill. They are giving us a clear example of

what is possible. The UK is somewhere in between. It is doing a lot on recycling, but it is doing too much landfill. I say “in between” because Europe also has countries where the figures are just the opposite. Seven or eight countries have a landfill figure of more than 80% and very low recycling figures.

A good thing that we have learned is that where separate collection starts and where things are organised well, the incremental changes can become much quicker. Then you can really go pretty fast from one situation to another. I want to explain what our view will be when we propose the next steps. By the way, we will not be introducing any new requirements because all the requirements are in existing legislation, it is just that you change something on the land that is being used today for municipal waste.

Member states were obliged by the previous package that pre-2020 they should recycle 50% and that we would give a clearer vision for the year 2030. Our vision would be simple: by 2030 each country should recycle everything it is possible to recycle. If you look at the best performers today, that is around 70%. Our ambition would be that countries would not landfill anymore. There is 3% to 5% of waste that you cannot avoid, at least not until you design the products in a way that means you can avoid, at the end of the day, even the last bit of landfill, but we are not yet there. That is the philosophy.

Zac Goldsmith: Can I—

Janez Potočnik: If we go that way, it is up to the member states themselves to decide how they want to implement it. Do they want to introduce producer responsibility or landfill taxes, or do they want to take any other measures? That is their choice, because we do not want to prescribe which thing works best in any particular country. We simply believe that it will be a lost opportunity and lost resource if we landfill the things that can be recycled—if we do not go in the direction that would at least start to shape the products that could be used and recycled, because the materials that are buried are lost.

From year to year we are digging deeper and deeper to try to get new materials out of the ground. That makes no sense either. The people who work in the mining industry will tell you that it is no longer economical for the miner. We need to look again and find new ways through this transition, which, as I said, is inevitable.

Q210 Zac Goldsmith: You actually did anticipate my next question—you answered it just as I was trying to interrupt. I was going to ask about the danger of being too prescriptive and you answered that in the second part of your question. Retrospectively, looking at regulations that already exist, such as WEEE and probably REACH as well, will there be an effort to amend those packages so that they are much more focused on outcomes rather than process? Landfill tax is probably the most effective thing any of us have ever seen in relation to waste, and it is about as blunt as it is possible to be, because it is not prescriptive—it just tells people, “Waste is a liability and you are going to have to find a way to minimise that liability.” WEEE seems to be the opposite; it is very complicated and hard for people to understand. Do you anticipate revisiting some of these regulatory packages and simplifying them?

Janez Potočnik: Quite a few of the things we are discussing with the Commission are about simplifying things. If you were to ask me, my frank assessment would be that we are exaggerating sometimes. We absolutely must go in the direction of trying to achieve the same things with as simple an approach as possible.

I will give an example. One of the directives for which I am responsible is an environmental impact assessment directive. That means that any investment must go through an environmental impact assessment, which is difficult because whoever wants to start the investment must do the real analysis, going from one door to another gathering up all the possibilities so that they can start with their investment. Two years ago, we proposed to the EU that each member state introduce a one-stop shop so that each user could go to one. Do you think that that passed the Council? No, because things in the member states are organised differently and they do not want to change. Many times, the burden is on both sides. I firmly believe that.

My answer to your specific question would be that for REACH we are currently trying to simplify things as much as we can—especially for SMEs because of the 2018 registration process—because we know that it is difficult. I am now working with eLCA and my colleagues to create a system that listens to them and comes closer to them. But on the other hand we have to know that those systems were established for protecting the environment. This is not something that we should compromise. We should look to a simplification, but we should not compromise.

On the others, my answer would be pretty much the same. For each, we have to be a bit patient because it is quite new legislation. For the others that are in the pipeline longer, we have to be more thorough and I am the first who would support you in that we need to look into the substance. Can we, and how can we, deliver the results in a simpler and more efficient way? This is our responsibility.

Q211 Zac Goldsmith: I would be very worried about you going back and unpicking REACH because it will be an invitation to the chemical lobbies to come and try to weaken it again as they did before. It was one of the biggest lobbying exercises in the history of lobbying.

One last question, we have heard that lack of data on commercial and industrial waste stifles innovation in the recovery of secondary raw materials. What do you think can be done to improve access to information on waste materials to help businesses take advantage of these opportunities?

Janez Potočnik: That is a problem. One of the directions we are taking is a kind of product passport so that each product would actually have its own history, through which you would know exactly how to start, but a lot of research is still needed and anything that I would say would be simply premature.

One of the things that I particularly believe in is eco-design because if you used eco-design as a tool through which to produce products that can be entirely recyclable, that would make more sense. For example, today we have mobile phones where you cannot even remove

the battery. I think what would be really important for eco-design is, when it comes to energy efficiency, that it indicates really good results. This is again a bureaucratic burden, but if the household is saved a lot of money because it is using less energy, less water and because it is buying the products that at the end can be recyclable, that is to the benefit of the household itself and the benefit of the society. I think we should sometimes simply be a bit less populist, if you want. Do things and drive some of the policies bottom up, up down, and go in the right direction where we certainly believe more or less the same as you.

Chair: Our colleague, Dr Offord, is going to probe a little more about issues of design.

Q212 Dr Offord: Good afternoon, Commissioner. Given that the environmental impact of a product is largely determined during the design stage, could you please advise us what initiatives the Commission is considering not only to promote eco-design, but to measure the footprint of a product?

Janez Potočnik: Eco-design is the major tool that we are using, and we should use. I think it also gives us major possibilities in the future. This is currently the tool that is connected very much to energy efficiency, and it is here in the hands of the directorate for energy, not the directorate of the environment. I think that a lot of possibilities for producing products that will be better recyclable, reusable and so on also lies there. It is also one of the areas where we could save water, energy and so on, so I think it has major potential.

The second activity, which we started last year and with which we are working currently with many activities with companies, is connected to the internal market for green products. We are trying to develop a kind of methodology on the basis of which we would be able to compare products, or at least product groups, and organisations. You have this for products and for organisations. They are the two pillars on which we are working. If we can somehow organise it, this definition could then be used either in eco-design or in eco-labelling, because also in eco-labelling we have major problems today. We have approximately 400 eco-labels, and when we researched the effectiveness of the eco-labelling, the answer was that 48% of people do not trust eco-labels, because they do not get proper information quickly enough and there are simply too many varieties of information. So these are two major activities that go in that direction. One is going into green markets. There is a green internal market for green products, which is now in the pilot phase, so we are working with various programme groups on pilots with the business sector, and in a year or two we will come with proposals on the basis of these pilot activities, and with other eco-designs, and we will know whether we are step by step moving in the direction that we should.

Q213 Dr Offord: What role do you see for public procurement in encouraging businesses to design products for the circular economy?

Janez Potočnik: Public procurement is a major problem. Whenever we discuss it, I hear the argument that public procurement was basically invented because we wanted to save money and increase competition and so on, and too many of the secondary targets that we tried to achieve through public procurement were not any good. I think that is simply wrong. If I remember well, it is 16% or 17% of European GDP in public procurement. That is

enormous purchasing power. If you use that purchasing power smartly, you use it to create remuneration and to make the transition possible. You use it to do the changes that you would hardly do without the kind of power that exists in public procurement.

Q214 Dr Whitehead: Good afternoon, Commissioner. We have heard already about the changes that are taking place in considerations of labour costs and, more recently, the transition to material costs. We have heard suggestions in our Committee that shifting the burden of taxation to follow that change would assist in the transition to circularity, but of course that would need to be applied across the EU. What is your view of those potential taxation changes that might provide a driver?

Janez Potočnik: My belief is that taxation is one of the instruments that will be intelligently used. Of course, when we talk about taxation, we all know that, according to subsidiarity, it is in the member states' hands to decide what taxes will be used. What we are trying to do from the Commission's side is simply, on the basis of trends that we are seeing in member states and comparing the member states, trying to advise them, through the semester process, where we see that countries have major reserves, still on shifting from the labour taxation via the resource taxation.

It makes sense to do that kind of a shift. Why? Because labour today is costly but it is abundant—you know that we have a lot of unemployment. On the other hand, we have resources, but when we see that they are poorer and rarer, we simply need to give a signal that we should use those resources more cautiously. That is why that shift would be logical not only from the point of view of supporting the philosophy that we have been discussing for an hour already. It is also logical from the point of view of this burden, because of the labour costs in the European Union, as we have a problem when we compare ourselves with our competitors. So I think that would be an intelligent direction. I will advise it, but it is in the hands of member states to design the best taxes that could work in that area.

Q215 Dr Whitehead: This is also a factor of where the status quo may be seen to be unsustainable—as more expensive, perhaps. We have mentioned already the experience in the UK of the landfill tax escalator. Are there fiscal incentives such as differential VAT rates that in your view might increase the uptake of recycled materials and move that circular economy forward? Is that the sort of area that might be at the leading edge of those fiscal initiatives?

Janez Potočnik: It could be, but I do not want to sound too prescriptive, here, because I firmly believe that each one of you knows their answers better than I do. I think what we can do is make the kind of overview of instruments that are currently already used in the member states. That is the utmost one can do, but the situation country by country is very different. Some have more programmes with energy than others, while some have bigger taxation and more problems with labour costs than others and so on. I simply do not want to sound too smart and too prescriptive in that way. I sincerely believe that that is where you have a better possibility to give a clear answer to that.

You named one of the possibilities, of course. For example, you have certainly heard that we tried to address one of the problems of plastics, and particularly marine litter. That is

why we proposed that each of the member states would be bound to somehow limit single-use plastic bags—that is our proposal, which we have done. But we came as far that; from there on, we believe that there are very many good examples. For example in your neighbouring country of Ireland, we can see a very good example: they produced a tax on plastic bags so that, in one year, they went down by 85% or 90%, almost. These are intelligent moves to achieve good results in protection of the environment and the use of resources. That can produce good revenue for your budget and, of course, if you get that revenue for the budget, you can then decrease the taxation of labour. I think it is a win-win and many of those cases are possible.

Q216 Chair: Commissioner Potočnik, I know that you had an hour available for us at the most, and we are very grateful indeed for the time that you have given to us. I am conscious that we have exceeded your time. I just want you to know that the work that we are doing is cross-cutting. We have just completed an inquiry on plastic bags, but now we are concentrating on this transition to the circular economy. I very much look forward to working closely with your work inside the Commission. May I thank you on behalf of all my Committee members for coming along and being part and parcel of our deliberations this afternoon? Thank you very much indeed.

Janez Potočnik: Thank you very much. I highly appreciate the possibility to talk to you. I think that the things we discussed today can be moved only if we work hand in hand. That is why I really appreciate that I have had the opportunity to talk to you. Support from your country would be more than precious—precious like the materials we are using.

Chair: Yes, and hand in hand across the divide we hope to work with you. We have an example in the report we did on pollinators, and we give equal importance to this current inquiry. Thank you and your team very much indeed.