

Business Case for the Circular Economy Investment Fund

Policy Context

1. The Ellen MacArthur Foundation's 'Scotland and the Circular Economy' report estimates that the adoption of circular economy practices in manufacturing and across a range of sectors could lead to annual material cost savings of between £2.3 to £3 billion, as well as a range of wider economic benefits such as increased resilience, new business opportunities and job creation. The Scottish Government's published 'Safeguarding Scotland's Resources: Blueprint for a more resource efficient and circular economy', <http://www.scotland.gov.uk/Resource/0043/00435308.pdf> highlights that:

- In the short and medium term, there are very significant (£2.9bn) potential savings from improvements to current patterns of resource use.
- On current trends, global economic growth will increase by 75% demand for material resources over the next 25 years.

2. The report draws on the McKinsey Commodity Price Index which shows that commodity prices have, over the last decade, been on an upward trend, in contrast to the long-term fall in prices seen since the start of the 20th century. Regardless of the reasons for this trend, the impact on economic development of rising and volatile prices can be seen both as:

- An opportunity – rising costs will create markets for new, more sustainable products and services.
- A threat – in the absence of moves to use resources more efficiently, increasingly volatile prices may undermine economic stability and prosperity, as well as placing increasing pressure on the global environment.

3. There are clear economic benefits for securing the successful transition to a resource efficient, low carbon, circular economy. It is estimated that jobs within low carbon industries sector could grow by 4% a year to 2020 rising from 70,000 (2012) to 130,000 which is over 5% of the Scottish workforce (ERDF Operational Programme). The Ellen MacArthur Foundation (2013) has estimated that the savings from the implementation of a circular economy approach in Scotland are £0.8-1.5 bn. The Green Alliance (2015) estimated that the job creation from circular economy business could be 20,000 by 2030.

4. There is wide recognition that change in this area will take time. There will continue to be a focus on improving the efficiency of the conventional linear pattern of resource use, where resources are extracted, processed, used and then recycled or discarded, as this pattern is well established and understood. However, the move to a more circular economy will go much further than this. Effective cycling of the many materials Scotland discards will stimulate research and development, encourage innovation and new forms of manufacturing and commerce that go beyond simply reducing environmental impacts, but instead help regenerate natural assets. This will create new jobs, increase competitiveness and resource security and reduce the costs associated with environmentally damaging activities.

5. Accordingly, the Scottish Government has set targets to reduce waste arisings in Scotland by 7% by 2017 from 2011 levels, and to achieve a 15% reduction by 2025. Zero Waste Scotland research estimates that the economic Gross Value Added achieved through full implementation of Scottish Government's Zero Waste Plan (2010) is £0.36 bn. The Scottish Government also recognises that a wide range of actions will be needed to achieve

this goal. These range from assisting individual businesses to identify and make changes and improve academic links, to working with procurement professionals to address demand side issues, alongside changes in behaviour by consumers.

Business Context

6. The cost of resources for SMEs (small and medium enterprises) in Scotland has increased in recent years. For example, UK government figures show a rise in industrial energy costs:

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/241414/qep_Sep_14.pdf

7. Similarly, the cost to SME of disposal of solid waste to landfill has risen over time from £70 per tonne in 2010 to £93 per tonne in 2013:

<http://www.wrap.org.uk/content/wrap-gate-fees-report-2013>

8. While the opportunities and threats around resource use are becoming clearer at strategic level, there is less evidence that these are sufficiently of concern to individual businesses, particularly smaller SMEs, to prompt significant action. At national level, this is clearly demonstrated in the information below, all of which is taken from the Small Business Survey Scotland 2012 available at www.scotland.gov.uk/Resource/0041/00416283.pdf.

9. Twenty-three percent of respondents reported that they had taken a lot of steps to reduce environmental impact, and a further 39% had taken a few steps. The proportion increased with company size. (p16) Twenty-two percent of those having taken steps to reduce their environmental impact had only done so to comply with regulations. Of these, 71 per cent had taken additional steps, which were above those required by regulations. (p16)

10. While these figures indicate that some action has been taken, a clear majority (66%) of SMEs reported that they would not do more than they do currently to reduce their environmental impact. The main reason given, by 64% of these, was that they had done enough already. (p17) Against this background, current and future commodity price rises represent a threat to businesses in Scotland.

11. The justification for intervention is therefore that action now will both reduce current costs while also ensuring businesses are less affected by future volatility, thereby safeguarding economic gains and taking advantage of growing niche opportunities.

For full information on the business case, please see

ESIF, 2014-2020, Strategic Intervention and Operations for Circular Economy, p.6

<http://companyweb/ERDF/161116%20SI%20Application%20Submission%206.pdf>