

Empowering a circular shift

A call for strong European circular economy reporting

In June and July 2023, the European Commission sought feedback on the proposed European Sustainability Reporting Standards (ESRS) submitted by the European Financial Reporting Advisory Group (EFRAG) in November 2022. One of these proposed standards, behind the cryptic acronym ESRS E5, sets forth data disclosure requirements for companies around resource use and circularity. It is only possible to manage what is measured – and that makes measuring the right indicators paramount to strong sustainability standards. The E5 standard is particularly important because it will shape publicly available performance data on resource use and circularity for more than 55,000 companies – and, for now at least, it leaves a lot to be desired.

Read on to learn about the three crucial areas for improvement to ensure that the standard becomes an effective tool for driving the transition to a regenerative circular economy, the number one priority for the European Green Deal, according to the Commission itself.

Distinguish between truly circular and non-circular renewable materials

Not all renewable materials are sustainable. If growing renewable resources harms the environment - by using techniques such as mono-cropping, tilling of the soil, or abusing chemical fertilisers - it must not be seen as sustainable or part of a circular economy. Biobased materials can only be considered circular if resources are grown through practices that promote ecosystem regeneration. Unfortunately, the Commission's proposed draft is vague in its requirements to disclose the sourcing of renewable materials. It allows companies to determine what constitutes a circular renewable resource on their own. To close this loophole, the European Commission must define renewable resources that are circular, as well as how to report on them.

Require companies to talk about their policies on circularity in detail

Company policies guide the strategy and resource allocation of an organisation. In turn, ESRS E5 must guide companies to ensure they encompass the key elements of a circular economy. The European Commission's draft requires companies to develop policies addressing the transition away from virgin resources and towards sustainable sourcing. This is important, but it is not enough for a full circular shift, which will also require using fewer resources that last longer and can be used again.

Establish a quantitative baseline for material flows

The first step in becoming more circular is understanding what resources go into and out of a company, and in what amounts. When we know this, we can identify the drivers for change and implement effective solutions to increase circularity.

Right now, the Commission is missing a window of opportunity to help companies measure this fully by only asking for the resources going in. Without knowing both sides of the story, circular economy efforts lose effectiveness, and decision-makers lack crucial information.



What's next?

The European Commission will take public feedback into account to revise and publish the standards as a proposed delegated act by the end of July 2023. The Parliament and the Council will then have a period to make objections. However, the delegated act is expected to pass into law without objection by the end of 2023.

A regenerative circular economy – that is backed up by meaningful reporting - is key to mitigating the climate crisis, protecting biodiversity, and promoting the well-being of people and the planet. Sadly, we are not there yet - unless EU policymakers adopt reporting standards that differentiate circular from non-circular renewable materials, require companies to disclose policies on circularity, and establish a quantitative baseline for material flows.