



Towards a Circular Economy

BACKGROUND:

The North Sea Commission Task Force “Towards a Circular Economy” was initiated during the Annual Business Meeting of the North Sea Commission in Bruges 2022.

The Task Force, with active participation from 21 NSC regions, has explored the concept of taxation as a key element for the transition towards a [circular economy](#). During the First Task Force meeting on 26 January 2023, a first draft resolution was discussed. It was concluded it provided a good basis to continue working on a joint NSC resolution.

The draft resolution was tabled at the NSC Executive Committee meeting on 24 February 2023. The ExCom supported the work of the Task Force and recommended to continue to work on a joint NSC resolution to be tabled at the NSC Annual Business Meeting in Brest 2023.

A second draft version was circulated to the Task Force for review on 28 February 2023. The proposed draft resolution was finalized based on country specific online meetings, suggestions for improvement during the second Task Force meeting on 27 March 2023 as well as additional suggestions provided by e-mail.

The final version was shared on 12 April 2023 for review of the Task Force members and consequently tabled for the North Sea Commission Annual Business Meeting in Brest 2023.

Introduction

In line with the European Green Deal, the *North Sea Region Strategy 2030* articulates the importance of the transition to a competitive circular economy. It emphasizes the ambition to lead by example and to tackle challenges together.¹ Since our North Sea regions are directly affected by the effects of climate change, we have a shared interest and responsibility to act.² The involvement of North Sea regions is in fact key to ensure that our regional economies and our businesses are futureproof and prepared for a climate-neutral, resource-efficient world. In addition, regional governments are committed to an inclusive transition that is socially fair and contributes to well-functioning labour markets, a skilled workforce and secure employment in our regions.

Aligning financial incentives

Despite the importance of transitioning our linear economies to inclusive circular economies, recent reports observe an opposite trend. The Circularity Gap Report shows that the global economy is becoming less circular: from 9.1% in 2018 to 7.2% in 2023.³ An important reason for this negative trend is that current financial incentives still favour a linear economy instead of a circular economy. The EU Green Deal actually includes a commitment to a taxshift from labour taxes to green taxes in support of a green and just transition.⁴ But even though the Fit for 55 package aims to extend the Emissions Trading System and introduce a Carbon Border Adjustment Mechanism⁵, the Polluter Pays Principle, as laid out in the Founding Treaties of the European Union⁶ is still not consistently applied.

Our linear economy causes climate change and environmental damage (including biodiversity loss, soil contamination, plastic waste, air pollution, greenhouse gas emissions). The costs to society of such ‘externalities’ are currently not reflected in the price of products. This, however, does not mean these externalities are free. Citizens and society at large are currently paying for them through damages caused by polluted rivers, flooded towns, health issues etc. Only some 6% of our tax revenues are based on ‘green’ environmental taxes (mainly on energy and mobility).⁷ Just a fraction 0.2%) of tax revenues is based on pollution and resource use.⁸ This allows the current linear economy to sustain itself.

¹ North Sea Commission (6 December 2020), [North Sea Region Strategy 2030](#).

² The North Sea Region will be affected by changes such as sea level rise, intensified heavy rain showers, more extreme varieties in discharges, long hot and dry summers, changes in marine ecosystems; in short, the marine environment and biodiversity in the North Sea Region face many threats. North Sea Commission (6 December 2020), [North Sea Region Strategy 2030](#).

³ Circle Economy (2023), [The Circularity Gap Report 2023](#)

⁴ “Well-designed tax reforms can boost economic growth and resilience to climate shocks and help contribute to a fairer society and to a just transition. They play a direct role by sending the right price signals and providing the right incentives for sustainable behavior by producers, users and consumers. The European Green Deal will create the context for broad-based tax reforms, removing subsidies for fossil fuels, shifting the tax burden from labor to pollution, and taking into account social considerations”. European Commission (December 11, 2019), [The European Green Deal](#).

⁵ European Commission (2021), [‘Fit for 55’: delivering the EU’s 2030 Climate Target on the way to climate neutrality](#).

⁶ “Community policy on the environment shall (...) be based on the precautionary principle and on the principles that preventive action should be taken, that environmental damage should as a priority be rectified at source and that the polluter should pay. Article 130R(2), EC Treaty, as amended by the Maastricht Treaty of 7 February 1992.

“Union policy on the environment shall (...) be based on the precautionary principle and on the principles that preventive action should be taken, that environmental damage should as a priority be rectified at source and that the polluter should pay.” Article 191(20). European Union (October 26, 2012), Consolidated version of the Treaty on the Functioning of the European Union.

Definition of the Polluter Pays Principle: European Commission (Accessed 10 April 2023), [Ensuring that polluters pay – toolkit](#)

⁷ EU27 5.6%, Belgium 6%, Denmark 7%, France 5%, Germany 4%, the Netherlands 8%, Norway 5%, Sweden 5%, UK 7%. Eurostat (Accessed 10 April 2023), Data on taxation trends. [Table 64](#): Environmental taxes as % of total taxation. 2020 data; UK data 2019.

⁸ EU27 0.2%, Belgium 0.3%, Denmark 0.4%, France 0.3%, Germany <0.001%, the Netherlands 1.1%, Norway 0.2%, Sweden 0.1%, United Kingdom 0.2%. Eurostat (Accessed 10 April 2023), Data on taxation trends. [Table 72](#): Environmental taxes as % of total taxation. 2020 data; United Kingdom data 2019.

At the same time, we derive the majority (53%) of our tax revenue from labour taxes, through income tax, payroll taxes and social security contributions.⁹ The desired circular economy, however, requires labour-intensive activities and services such as repair, recycling, remanufacturing and the redesign of supply chains. High quality training and retraining will be needed to develop the skills for circular jobs, and education itself is a labour-intensive activity. High labour taxes are a strong disincentive to applying such circular business models. In tight labour markets, such business models have an even higher competitive disadvantage. Therefore, we need to discuss how we can align financial incentives with the goals of an inclusive circular economy, by for example looking into shifting taxation from taxing labour to taxing pollution and resource use, as explained by the European Commission, the OECD, the World Business Council for Sustainable Development, the UN, the World Bank and the IMF and explored in detail by The Ex'tax Project (see Appendix 1).¹⁰ Appendix 2 includes selected tax structure data for Belgium, Denmark, France, Germany, the Netherlands, Norway, Sweden and the UK, illustrating the relevance for NSC regions.

A taxshift from labour to green taxes potentially leads to a significant decrease in CO₂ emissions, higher employment levels and increased sustainable spending power (especially for lower income households).¹¹ Therefore, a taxshift potentially contributes to social inclusion, well-functioning labour markets and welfare systems ('leaving no-one behind'), which are core objectives of the European Union¹² and the North Sea Region Strategy 2030.¹³

It is in this respect important to stress that this is not about a tax increase. Instead, it's about taxing more intelligently and shifting the tax burden from labour to green taxes in a budget-neutral way. Depending on the level of pricing, some green taxes may be very effective in changing behaviour. To address the consequent erosion of green tax revenues, rates may be increased, or tax bases may be expanded (much like labour taxes are adjusted in times of rising unemployment, social security costs or public investments). Research shows that a wide variety of green tax instruments are available to governments to ensure stable revenues.¹⁴ In a fast-changing world, tax systems will also need to adjust to new challenges based on a continuous process of evaluation and adaptation.

The need for regional cooperation

This North Sea Commission resolution is meant as a first step to explore, better understand and raise awareness about the concept of taxation as a lever for a transition towards a circular economy. The transition to a regenerative, inclusive and circular economy will cause a substantial change in our economies, in the EU and beyond. The transition will take time. Aligning financial incentives will therefore require extensive analyses and collaboration among all stakeholders at EU, national and regional levels, as expressed by regional minister Tjisse Stelstra, President of the North Sea

⁹ EU27 53.3%, Belgium 53%, Denmark 52%, France 52%, Germany 59%, the Netherlands 52%, Norway 52%, Sweden 58%, UK 39%. Eurostat (Accessed 10 April 2023), Data on taxation trends. [Table 44](#): Taxes on labour as % of total taxation. 2020 data; UK data 2019.

¹⁰ The Ex'tax Project (et al.) (June 2022), *The Taxshift. An EU fiscal strategy to support the inclusive circular economy*. In collaboration with Cambridge Econometrics, Deloitte, EY, KPMG, PwC. See for a short overview of the taxshift principles Appendix 1.

¹¹ See for example the [country results of the Taxshift study](#) by The Ex'tax Project.

¹² European Commission (2021), [The European Pillar of Social Rights Action Plan](#). European Parliament (1 April 2022), [The 2030 Agenda's principle of 'leaving-no-one-behind'](#)

¹³ North Sea Commission (6 December 2020), [North Sea Region Strategy 2030](#).

¹⁴ See for example World Bank (2022), [Squaring the Circle: Policies from Europe's Circular Economy Transition](#)

Commission and Rapporteur to the Committee of the Regions for the new Circular Economy Action Plan.¹⁵

The North Sea regions already act in several ways to accelerate the transition towards a circular economy, amongst others by sharing best practices, developing policy papers and initiating and producing joint studies.¹⁶ The North Sea regions are also major buyers of products and services from the market and use the instrument of public procurement in a targeted way to support the transition.¹⁷ The regions can also use their roles as planning authorities, public transport operators and owners of roads, educational institutions, office buildings, hospitals and dental clinics (whatever applies) in the same manner. However, our current tax systems provide a strong disadvantage to circular investments. This also affects our investments in, for example, spatial planning, transport, health care and education. Even though taxes are (in most cases) not within regional jurisdictions, we can act. Together, we can combine our regional efforts towards both national governments as well as the EU to ensure joint effective action towards reaching the goals of the EU Green Deal and the North Sea Region Strategy 2030.

¹⁵ [Committee of the Regions Opinion Factsheet](#)

¹⁶ Also in regard to Interreg NSR projects like [ProCirc](#) and [CircNSR and the NSC Report: “Sustainability and circularity in the electromobility sector” February 2023, Smart Regions Group, North Sea Commission.](#)

¹⁷ “A vital part of the Green Deal is that public authorities should be drivers for innovation in industry through their procurement”. North Sea Commission (6 December 2020), [North Sea Region Strategy 2030.](#)

RECOMMENDATIONS:

The North Sea Commission:

1. Stresses the need to accelerate the transition towards a sustainable circular economy.
2. Calls for the use of financial incentives which stimulate circular businesses instead of linear businesses.
3. Emphasizes the role of regions, while acknowledging their limited jurisdiction over taxation, to ensure that regional economies are well prepared for a resource-efficient world and to help promote a transition that is inclusive, socially fair and that contributes to well-functioning labour markets, a skilled workforce and secure employment in our regions.
4. Recognizes the importance of changing the way we value natural resources, in a more circular manner, thereby reducing CO₂ emissions, decreasing dependence on imports and resource supply risks, as well as lowering the impact of climate disruption and loss of biodiversity in our North Sea regions.
5. Recognizes the impact of using revenues from new green taxes to lower labour taxes (for both employers and households), and other targeted financial measures to enhance the transition to a socially fair and circular economy.
6. Supports the principles of applying the Polluter Pays Principle and ‘leaving no-one behind’, and the need to solve environmental issues and social issues simultaneously.
7. Welcomes the approach proposed by the European Commission to start re-thinking the tax mix of the future¹⁸ and the “fitness check” procedure¹⁹ for the Polluter Pays Principle.
8. Recommends considering the taxshift principles (as part of the broader discussions on reduced use of resources and global competitiveness) to tackle climate change and enable the transition towards a circular economy.
9. Highlights the need for regional, national and EU levels to explore opportunities for coordinated action.

¹⁸ European Commission (Accessed 7 April 2023), [On the road to 2050: A tax mix for the future](#).

¹⁹ The fitness check allows the Commission to identify where the [Polluter Pays Principle](#) is well applied and where there is scope for further implementation. On the basis of the fitness check, in 2024 it would be able to make recommendations on how to better implement the polluter pays principle. European Commission (Accessed 7 April 2023), [Polluter Pays Principle – fitness check of its application to the environment](#).

ACTIONS:

The North Sea Commission therefore wishes to draw attention to the following actions, and will continue to support the initiatives of its Member Regions, in cooperation with stakeholders and networks active in this field. The Commission will in particular:

1. Support **awareness**-raising activities, including:
 - a. Facilitating dialogue and cooperation between NSC regions to further develop knowledge and understanding of the principles of a taxshift and other relevant measures.
 - b. Discussing the NSC resolution “Towards a Circular Economy” with regional, national and international/EU levels.
2. Identify opportunities to develop a joint **NSR Interreg project**, for example, by testing the application of the taxshift principles in a small-scale pilot study in various supply chains.
3. Engage with **businesses** to explore how regions can support a shift to circular and competitive business models and how a possible taxshift would impact strategic sustainable and social investment decisions in our regions.
4. Explore opportunities of potential **policy measures** and discuss their impact on regional economies, labour markets and sustainability goals.
5. Support and encourage **debate between** national governments to explore opportunities for a coordinated taxshift.