

YES TO THE CIRCULAR ECONOMY... AS LONG AS IT IS PROFITABLE

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The circular economy offers a very attractive conceptual framework, both from a conceptual point of view and from a more practical prism through which industrial companies can find new ways to optimise their production processes. However, the logic of the market will always prevail and any circular solution will necessarily have to be profitable for the company.

The application of the principles of the **circular economy** in the company will always have the same end goal: to maximise the efficiency of the production processes in order to increase the profitability of the company and generate profits that allow the company to survive and grow. It is true that even if you have the best product or service on the market, you have to know how to sell it, because there may always be a competitor with a worse offer than yours, but with a great commercial strategy that allows them to sell more to the customer than you. The **circular economy** is also a **powerful marketing element** that, if used well (beware of **greenwashing...**), can boost the company's sales, and it is clear that the more your client takes into account aspects related to **waste minimisation**, **carbon footprint reduction** or the **reusability of products**, among others, the more they will do so.

It is the **customer**, together with **standards** and **regulations**, that is the main motivator for adopting circular measures within the company, especially for SMEs that sell to large companies. These large companies are the first to feel the pressure of increasingly stringent environmental regulations, which they then pass on to their suppliers. A clear example is the **industrial sectors covered by the EU Emissions Trading Scheme**, whose obligation to report their greenhouse gas emissions also affects their suppliers, who have to provide information on the emissions generated in the production process of the goods they sell to these large companies.

Climate change is perhaps the area where the demand for environmental regulation is increasing most strongly and across the board. In addition to **emissions trading**, recent years have seen the development of various laws at national and regional level that oblige an increasing number of companies to **calculate their carbon footprint**, and there are also mechanisms for **voluntary registration of emissions**, such as the one offered by the **Ministry for Ecological Transition and the Demographic Challenge**, which seeks to mobilise companies in the face of the challenge of climate change.

In terms of **key resources**, if we are talking about **raw materials**, the company's competitiveness depends on having access to the best resource, the one that offers the highest quality, or the one that is required by the customer and that can be obtained at the lowest possible cost. Once again, it is the customer who determines the resource that the company (in this case, a company that manufactures goods and products) should use and the specific characteristics that it should have, and one of these can be the **recycled origin of this material**, such as the **green steel** that some companies are starting to demand in order to reduce their emissions (since its production also uses renewable energy). There are other issues that may influence the **purchasing decision**, such as security of supply, but as with green purchasing, the decision will be driven by the profitability of the product: the recycled alternative of a given raw material may be more expensive, but if one of

the best customers is asking for it, the company will have to jump through the hoops.

Another question is **what happens outside the borders of the European Union**, where regulation is more lax in many areas related to the circular economy, jeopardising the competitiveness of European industry. In this context, the **Carbon Border Adjustment Mechanism** has recently been created, a reference tool to put a fair price on carbon emitted during the production of carbon-intensive goods entering the EU, affecting cement, iron and steel, aluminium, fertilisers, hydrogen and electricity. The mechanism is still in a transitional phase, so it remains to be seen what impact it will have on the European companies concerned and on Europe as a whole.

Returning to climate change, a **key resource** for many manufacturing companies is **energy**, as the energy crisis of 2022 made even clearer. The historic energy prices reached that year were an incentive for industrial companies to **increase efficiency** and explore **renewable energy alternatives**, in many cases using their industrial roofs to install photovoltaic solar panels, a relatively safe investment with a very attractive payback period for companies. In addition, many SMEs have been able to use these installations to reduce their carbon footprint. And many others, particularly those under pressure from international customers over climate change, have been forced to contract energy with a **renewable energy guarantee**. While this may mean a more expensive contract with the energy company, the extra cost may be offset by not losing or attracting customers who demand a supplier that has made efforts to reduce its **CO2 emissions**.

Finally, another aspect to be mentioned in relation to the **circular economy** and industrial companies is that of **waste**. In general, and for several years now, companies have been managing their waste appropriately, as the relevant regulations are well developed and their application is more than widespread. There are industries that are aware of the value that can be extracted from this waste and are introducing new production processes that valorise it as a prelude to selling it or reintroducing it into the production process. In fact, many companies are incorporating equipment and processes traditionally used by waste managers. This creates new business opportunities for some industries, as long as they have a waste stream with a constant volume and flow that allows them to make a return on the new by-product that is used or brought to market.

Yet another example of the **Circular Economy**... as long as the company can make the numbers work.

