



The integration of EU circular economy policies in the external trade policy: A case study of the EU-Mercosur Trade Agreement

BY

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A thesis submitted for the Joint Master's Degree in

EU Trade & Climate Diplomacy (EUDIPLO)

Academic year

2020 – 2021

July 2021

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ACRONYMS

AA	Association Agreement
CEAP	Circular Economy Action Plan
EPR	Extended Producer Responsibility
ERM	Energy and Raw Materials
EU	European Union
EUMAA	EU-Mercosur Association Agreement
FTA	Free Trade Agreement
GATS	General Agreement on Trade in Services
GATT	General Agreement on Tariffs and Trade
GHG	Greenhouse Gas
IFCA	Interregional Framework Cooperation Agreement
IISD	International Institute for Sustainable Development
ILAC	Latin American and Caribbean Initiative for Sustainable Development ("Iniciativa Latinoamericana y Caribeña para el Desarrollo Sostenible" in Spanish)
IPRs	Intellectual Property Rights
IRP	International Resource Panel
JRC	Joint Research Centre
MEAs	Multilateral Environmental Agreements
MERCOSUR	Southern Common Market ("Mercado Común del Sur" in Spanish)
OECD	Organisation for Economic Co-operation and Development
PEF	Product Environmental Footprint
SDGs	Sustainable Development Goals
SMEs	Small and Medium-sized Enterprises
TBT	Technical Barriers to Trade
TEU	Treaty of the European Union
TFEU	Treaty on the Functioning of the European Union
TSD	Trade and Sustainable Development
UNEP	United Nations Environment Programme
VPRs	Value-Retention Processes
WTO	World Trade Organisation

INTRODUCTION

As the current socio-economic status quo is no longer viable, political interest in the circular economy is emerging at the domestic, EU and international level because of its potential to achieve sustainable development. Adopting circularity can contribute positively to deliver on relevant SDGs such as SDG 2 on zero hunger; SDG 6 on clean water and sanitation; SDG 7 on affordable and clean energy; SDG 8 on decent work and economic growth; SDG 11 on sustainable cities; SDG 13 on climate action; SDG 17 on partnerships; and, above all, SDG 12 on sustainable consumption and production.

The need for a transition is particularly relevant after the ongoing COVID-19 pandemic has laid bare the vulnerabilities of the current global value chains. This growing interest proves that a circular transition is the way forward for most countries. By the end of 2019, the EU released the European Green Deal, the sustainable growth strategy where circular economy has a crucial role; it is recognized as a prerequisite for climate neutrality. More recently, in March 2021, 53 WTO members met for the first time to discuss on ways forward to progress on trade and sustainable development issues (WTO, 2021). Still most circular initiatives are launched at the domestic level.

The EU, as the largest single market in the world, has positioned itself as the international actor leading by example and setting standards, especially when it comes to environmental matters. In a circular transition, the role of the EU will be arduous given the lack of international consensus. But if well played, the EU can become the unquestionable global leader in the transition by globalizing its internal circular policies and anticipating geopolitical shifts that might come with this transition. This stance will contribute to achieving the objectives of the current geopolitical Commission.

Globalising circularity is required because, even though circular economy policies are being adopted successfully in the EU, isolated actions are not enough due to the globalization of value chains. International common agreements on circular policies are desirable for a successful transition. The new EU CEAP communication acknowledges the need for a global transition in its point seven on “Leading efforts at global level.”

Circular policies will, on one hand, result in positive and negative impacts on international trade with third countries. On the other hand, EU trade policies can facilitate the global promotion and integration of policies. In this line, the EU unveiled in February 2021 its trade policy review by which a tougher course for a renewed EU trade policy was set, including circular economy and climate changes issues on trade negotiations. This review underlines the EU's compromise to link trade to environmental-related issues.

As a result of the need to globalise circular economy, the main objective of this research is to assess to what extent the EU can use its trade policy tools to address the global circular transition and position itself as a global leader considering the new ambitious approach to put sustainability at heart of the EU policy agenda. Based on this, the thesis will attempt to:

- raise awareness of the need for a common approach towards a circular transition and the role of international trade in such transition.
- build research on an under-researched but timely topic.
- assess the strategic capacity of the EU to lead such transition and the EU's capacity to lead by example.
- stress the importance of the external dimension of circular economy.

To meet the objectives of this research, a deductive approach has been chosen. This approach allows to give a hypothesis, analyse the available data and literature, and assess whether the hypothesis is supported by analysing the findings of the research. In coherence with this approach, an evaluation research method will be applied given the possibilities it offers to assess a specific issue to achieve a goal. Therefore, the research question of this thesis is as follows:

How can EU circular policies be integrated in the EU external trade policy to globalise circular economy?

To answer this question, the study uses a wide variety of relevant material on the topic of trade, sustainability and circular economy. The majority of the sources will be secondary qualitative data: academic journal articles, mostly from JSTOR and

ScienceDirect; Commission's communications and EU law (primarily FTAs and founding treaties); international organisations publications and press releases from the EU, WTO and the OECD, since the three of them have published documents assessing the linkage between trade and circular economy (the OECD has particular extensive literature on the issue), and the UNEP to a lesser extent; statistics such as Eurostat and TREND ANALYTICS; and, publications from think tanks and civil society such as the Ellen MacArthur Foundation, IEEP and IISD to incorporate the views of the different stakeholders. The literature review findings suggest that this topic is still underdeveloped, but sources dedicated to study the issue are currently increasing. For example, in May 2021 the IISD published a report on how to incorporate circular provisions in regional trade agreements.

In this research paper, relevant EU FTAs have been reviewed. Given the limitations of this publication, only FTAs with direct references to circular economy and negotiated after the first EU's CEAP was published or under current negotiation have been considered (i.e. trade agreements with Australia, Chile, Mercosur, Mexico, New Zealand and the UK). In addition, the EU-South Korea FTA has been included because it is considered the blueprint for sustainable development in FTAs. Despite possible modifications in FTAs still under the negotiation phase, the intention of the FTAs analysis is to examine what the current stance of circularity in relevant EU trade agreements is.

A case study has been carried out to prove the hypothesis (see Chapter 5). The aim of the case study is to measure in practical terms the effectiveness of EU trade policy for raising environmental and circular standards, and to determine how realistic is the goal of ensuring that FTAs reflect the enhanced objectives of the circular economy. The EU trade agreement with Mercosur has been selected as the object of the study because:

- the agreement materialises the first case of inter-regionalism in the world.
- the EU and Mercosur do not have the same environmental standards, offering more room for collaboration towards a circular economy integration.
- the deal has been recently concluded and has sparked concerns about its compatibility with sustainable development in both sides.

- the 2021 EU Trade Policy Review considers Latin America as one of the key regions to consolidate partnerships.
- there are interesting circular developments in the region; in early 2021, the Circular Economy Coalition for Latin America and the Caribbean was launched.

Given data availability constraints as a result of the short existence of the agreement, the case study will not focus exclusively on circularity but also on sustainable development. The review of relevant EU FTAs and the findings of the case study have also permitted to collect primary qualitative data crucial to draw conclusions on the matter.

Throughout the research study, several challenges have emerged. The novelty of the topic has indeed affected the data collection. There is low availability of data and research. Nonetheless, there are enough publications establishing a link between the two main subjects of this research paper: circular economy and international trade. The lack of international consensus on key aspects of this topics such as the definition of the concept of secondary materials did also hinder the research. Yet the significance of researching this matter lies in its potential to predict possible future disruptions in international trade and help policy makers to take better informed decisions.

The first chapter of this thesis introduces the concept of circular economy, its opportunities and limitations, with an emphasis on the perspective of the EU by providing an overview of the most relevant circular policies. The second chapter looks at the EU's understanding of trade and the role of the EU as a global trade actor from a sustainability angle. Chapter three will look at the different interlinkages between trade and circular economy through all stages of the value chain, analysing how the existence or absence of circular policies affect trade, and vice versa. The fourth chapter explores ways to include circular initiatives in trade policy tools. The chapter identifies trade agreements as the best trade policy instrument to integrate circular economy and distinguishes between action and cooperation clauses in them. Chapter five illustrates the role of trade agreements in advancing towards a global circular economy by presenting the case study of the EU-Mercosur trade agreement. The last chapter will provide a conclusion of the research and will compile the most important findings.

CHAPTER 1. CIRCULAR ECONOMY FROM A EUROPEAN PERSPECTIVE

1.1. Circular economy as a policy concept: Opportunities and limitations

The term circular economy has gained increasing relevance in policy agendas around the world because of its potential to contribute to sustainable growth. In spite of increasing attention, circular economy is a concept in the making, an umbrella term that encompasses several theories with the common factor of promoting circularity of resources and materials –that is why circular economy is sometimes referred to circularity. Given the different approaches to circular economy, there is no officially recognized definition of the concept. Nevertheless, because it is considered a “business model expected to lead to a more sustainable development and a harmonious society” (Ghisellini et al, 2016, p. 12), circular economy has evolved from a pure environmental concept to an economic and environmental concept.

The origins of circular economy can be found in different schools of thought and theories such as cradle-to-cradle, ecological economics, performance economy, blue economy or biomimicry (Wautelet, 2018). However, in the late 60s and early 70s, the concept started gaining form with the 1966 essay *Economics of the Coming Spaceship Earth* by Kenneth E. Boulding, where he explained that an economy understood as circular was a prerequisite for sustainability on Earth (Ghisellini et al, 2016; Wautelet, 2018; Kern et al, 2019). In 1974, the Donella Meadows’ *Limits to Growth* warned against the unsustainability of the exponential growth in the exploitation of resources. Walter Stahel has also published numerous articles developing the closed-loop economy consisting of three loops –reuse, remanufacturing and recycling– and coined the concept of “cradle-to-cradle” in opposition to a linear economy model (Wautelet, 2018; Kern et al, 2019). In 1989, David Pearce and Kerry Turner published *Economics of Natural Resources and the Environment*, building their theory on previous studies. While some scholars argue that Pearce and Turner primarily founded the concept of circular economy (Ghisellini et al, 2016; Wautelet, 2018), others state that the origins of the term come from ecological and environmental economics and industrial ecology and has

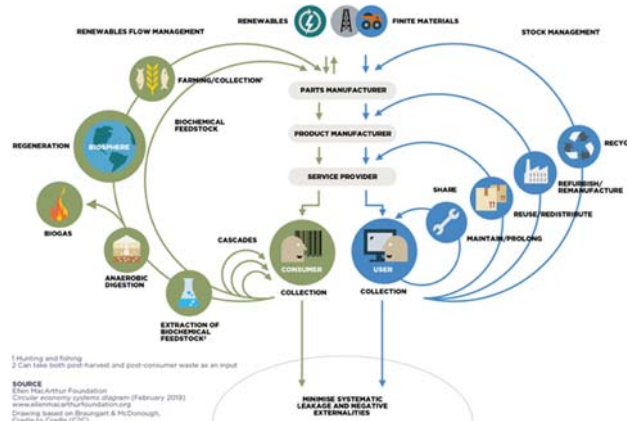
been later improved thanks to the emergence of later theories such as cradle-to-cradle and biomimicry (Ghisellini et al, 2016; Wautelet, 2018; Kern et al, 2019).

Notwithstanding the diverse origins of the concept, all these theories, as well as the different definitions of the term, have numerous commonalities. First of all, they all agree that the current linear economic system is unsustainable (Wautelet, 2018) and that there is a need to rethink business models to make them more compatible with the environment. Secondly, the theories urge for an increase in the efficiency of resources. Indeed, the circular logic understands economic growth as a process that prolongs the lifetime of products instead of producing more (Ritzén et al, 2017). This can be attained by applying Stahel's three "Rs" principle. Lastly, the theories and definitions also make a distinction between technical and biological cycles (see Figure 1).

Considering that circular economy is a notion with roots in other concepts, definitions vary depending on the region, the country, the international institution or the NGO (Sajous, 2019). Lacking an internationally agreed definition entails a major impediment for adequate policy making, particularly taking into consideration its cross-border nature. There are, however, two definitions worth considering. The Ellen MacArthur Foundation, an institution of reference in circular economy, regards the concept as:

an industrial system that is restorative or regenerative by intention and design. It replaces the end-of-life concept with restoration, shifts towards the use of renewable energy, eliminates the use of toxic chemicals, which impair reuse and return to the biosphere, and aims for the elimination of waste through the superior design of materials, products, systems and business models (2013, p.7).

Figure 1 Circular Economy Diagram



Source: Ellen MacArthur Foundation (2013)

While a definition resulting from an analysis of the literature review of 144 definitions of circular economy (Kirchherr et al, 2018, p. 1) defines the term as:

an economic system that is based on business models which replace the 'end-of-life' concept with reducing, alternatively reusing, [and] recycling [...] materials in production/distribution and consumption processes, [...], with the aim to accomplish sustainable development, which implies creating environmental quality, economic prosperity and social equity, to the benefit of current and future generations.

Due to the high complexity of the notion, circular initiatives and policies are considerable broad as they cover issues ranging from waste management to eco-design or public procurement, although they can also cover more “traditional” environmental matters such as pollution or climate change (UNECE, 2020). Thus, these policies can be classified in three categories: regulatory, by setting requirements or prohibitions; market-based, by establishing incentives; and, outreach, by providing information to consumers and producers (Ekins et al, 2019).

A comparative study conducted jointly by McKinsey and the Ellen MacArthur Foundation (2015) estimated that the adoption of circular policies in the EU could generate a net economic benefit of €1.8 trillion by 2030, an increase of seven percentage points of the GDP. According to the study (ibid), the transition will involve considerable investment, particularly in new technologies, but will bring environmental benefit, decouple economic growth from resource use, boost competitiveness and generate better welfare and employment outcomes than the current scenario.

In spite of the current growing interest in circular policies and proven economic benefits, the reality is that their implementation has been limited in practice (Ritzén et al, 2017; Kirchherr et al, 2018; Grafström et al, 2020). Part of the reason is that this concept is relatively new in policy making. However, there are also a series of barriers preventing the smooth implementation of such initiatives. According to the majority of scholars (Ritzén et al, 2017; Kirchherr et al, 2018; Grafström et al, 2020), the barriers to circular economy in the EU can be categorised in cultural/attitudinal barriers; regulatory barriers; market/economic barriers; and finally, technological barriers.

Cultural or attitudinal barriers are related to consumers and companies. There is a general lack of interest and awareness in engaging with circularity, which prevents it to become mainstream (Kirchherr et al, 2018). Grafström et al (2020) argue that the main problems in this category are a hesitant company culture, lack of consumers' awareness and weak cooperation throughout the supply chain. Scholars have identified a lack of understanding of the concept among companies, especially concerning its relationship with sustainability (Ritzén et al, 2017), while consumers are reluctant to products that are not new (Kirchherr et al, 2018). In addition, there are constraints on moving from a linear business model (Kirchherr et al, 2018; Grafström et al, 2020).

Regulatory barriers arise from weak policies supporting the circular transition. Even though international supply chains are highly interconnected, there is a lack of consensus on circular policies. These barriers are particularly relevant when trading abroad and not so much within the EU. Lack of smart regulations, limited circular procurement, lack of supportive policy frameworks (Kirchherr et al, 2018), among others, discourage the adoption of circular business models. This type of barriers will be further analysed in the upcoming chapters.

Market or economic barriers highlight the low financial profitability of current circular products. This is due to low virgin material prices (compared to recycling materials), high costs of investment necessary to develop circular products, and difficulties for funding circular business models (Kirchherr et al, 2018; Grafström et al, 2020). For these reasons, circular economy alternatives are sometimes so expensive that they will depend on subsidies to ensure economic benefits (Kirchherr et al, 2018).

Technological barriers are particularly characteristic of circular initiatives considering that applied technology is essential for a circular transition. Circular products and initiatives must add value compared to their linear alternatives and deliver high quality. Innovative technologies applied to product design are essential for a circular transition, however slow technological developments hamper progress towards circularity (Ritzén et al, 2017; Kirchherr et al, 2018; Grafström et al, 2020). Overcoming cultural or attitudinal barriers can accelerate and upgrade technological developments.

Circular economy can be viable in economic terms; however bold action is crucial to overcome the barriers that hamper circular transition. A key player in this sense are the governments since they are essential for sustainable development (Kirchherr et al, 2018). While cultural barriers are harder to overcome, positive developments in the other might unleash a ripple effect on cultural barriers.

1.2. Circular economy in the European Union: An overview

Recent policy developments related to circularity are particularly relevant in the EU, although the pioneer in the field is China, with the release of the first circular economy programme in 2002 (Kern et al, 2019). Actions at the EU level find their legal basis in numerous references in the EU treaties to sustainable development as an EU objective such as article 3.3 TEU, article 3.5 TEU, and article 21.2 TFEU. The first EU-wide circular strategy arrived in 2015 with the first CEAP. However, earlier developments related to circular economy began in 2009 when the Commission started focusing on the use of resources and sustainable consumption and production, resulting in the 2011 Roadmap to a Resource Efficient Europe (ibid). The Commission introduced in this Communication the concept of circular economy for the first time.

The roadmap became, after a failed attempt in 2014, the policy precedent of the 2015 circular economy package which contains the Communication “Closing the loop - An EU action plan for the Circular Economy”, four legislative proposals on waste –waste, packaging waste, landfill and electrical and electronic waste– and a funding of €650 million under Horizon 2020 and €5.5 billion under the structural funds (Bourguignon, 2016). The Communication includes 54 actions organised in focus areas covering all stages of the economic cycle to be met by 2030: production (product design, production processes); consumption; waste management; secondary raw materials; and competitiveness and innovation (European Commission, 2015a). In addition, the first CEAP highlights five priority areas: plastics; food waste; critical raw materials; construction and demolition; and biomass and bio-based products (ibid). This first CEAP misses the opportunity to include an EU legal definition of circular economy. Instead, the legal definition was covered in the article 2.9. of the Regulation (EU) 2020/852 on

the establishment of a framework to facilitate sustainable investment (Morron Lingl et al, 2019) and reads as follows:

an economic system whereby the value of products, materials and other resources in the economy is maintained for as long as possible, enhancing their efficient use in production and consumption, thereby reducing the environmental impact of their use, minimising waste and the release of hazardous substances at all stages of their life cycle, including through the application of the waste hierarchy (Regulation EU 2020/852).

The Communication set the basis for the design of a monitoring framework for the circular economy –presented in 2018 by the Commission– consisting of ten indicators developed by Eurostat in line with the four thematic areas (see Figure 2). In March 2019, the implementation report of the action plan concluded that all 54 actions were successfully delivered (European Commission, 2019c).

Figure 2 EU circular economy indicators

Production and consumption indicators	Waste management indicators	Secondary raw materials indicators	Competitiveness and innovation indicators
1. Self-sufficiency of raw materials for production in the EU 2. Green public procurement 3. Waste generation 4. Food waste	1. Recycling waste 2. Specific waste streams	1. Contribution of recycled materials to raw materials demand 2. Trade of recyclable raw materials (between the EU Member States and with the rest of the world)	1. Private investments, jobs and gross value added 2. Patents related to recycling and secondary raw materials as a proxy for innovation

Source: Eurostat (n.d.)

The formation of the new Commission under President von der Leyen in late 2019 brought a new impetus for circular economy developments in the EU. In December 2019 the Commission unveiled the European Green Deal, the economic strategy for sustainable growth with the overarching goal of making Europe climate neutral by 2050. One of the pillars of the strategy aims to continue supporting a circular transition under the title “Mobilising industry for a clean and circular economy.” This commitment to a circular transition has been reflected in the most recent Coronavirus Recovery Plan, the NextGenerationEU. The Communication sets out six key actions to achieve the circular transition (European Commission, 2019a): an EU industrial strategy, by March 2020; a

new Circular Economy Action Plan, by March 2020; initiatives to stimulate lead markets for climate neutral and circular products in energy intensive industrial sectors, from 2020; a proposal to support zero carbon steel-making processes by 2030, by 2020; legislation on batteries in support of the Strategic Action Plan on Batteries and the circular economy, by October 2020; and legislative waste reforms, from 2020.

From all the actions lay out in the European Green Deal strategy, the new CEAP is the most relevant to discuss the issue at hand because it offers a reviewed and detailed course of action to achieve circularity. The Communication “A new Circular Economy Action Plan: For a cleaner and more competitive Europe” was adopted in March 2020 by the Commission. It comprises 35 actions in alignment with the Green Deal. Building on the 2015 CEAP, this new strategy includes initiatives from all stages of the life cycle and identifies seven key sectors: electronics and ICT; batteries and vehicles; packaging; plastics; textiles; construction and buildings; and food, water and nutrients. In addition, the revised CEAP considers circularity as a prerequisite for climate neutrality.

The Commission devotes a chapter in the new CEAP to outline its approach to scale up circular economy internationally. While this Communication’s section is vague and brief, the Commission recognizes the need for a global circular transition beyond national borders and establishes seven points of action to enhance its international dimension:

1. reach a global agreement on plastics;
2. create a Global Circular Economy Alliance;
3. initiate an international agreement on the management of natural resources;
4. build a stronger partnership with Africa;
5. ensure that FTAs reflect circular economy;
6. promote circular economy in the accession process and in bilateral, regional and multilateral policy dialogues, fora and environmental agreements; and,
7. set up outreach activities through the European Green Deal diplomacy and the Circular Economy missions and enhance coordination with EU Member States.

The alignment between the European Green Deal and the 2020 CEAP is latent in the external dimensions that both communications include. The European Green Deal also brings an important external dimension of the proposed policies in order to promote and coordinate the internal response to climate and environmental-related challenges with actions at the global scale. This is intended to be done through stronger green deal diplomacy initiatives aiming at convincing other partners to promote sustainable development by setting example and increase collective responsibility (European Commission, 2019a). This approach is upon which the hypothesis of this paper is based, particularly actions that promote circular economy objectives in FTAs.

CHAPTER 2. THE EU AS A GLOBAL TRADE ACTOR ACCOUNTING FOR SUSTAINABILITY

The EU's common commercial policy or trade policy is an exclusive competence; the article 207 TFEU establishes the basis for its development. However, this was not the case before, as the policy has evolved throughout the years (Titievskaia, 2019; Conconi et al, 2021). A period of expansion came with the Lisbon Treaty, bringing important changes: the European Parliament gained a greater power –co-legislator role with the Council on trade issues–, new powers were transferred to the EU on trade (e.g. foreign direct investment), and qualify majority voting became the general rule for the majority of trade matters (European Commission, 2011).

The main aim of the EU trade policy is to grant market access (Titievskaia, 2019; Conconi et al, 2021) for European businesses and trade liberalisation through “changes in tariff rates, the conclusion of tariff and trade agreements; the achievement of uniformity in measures of liberalisation; export policy; and measures to protect trade” (Titievskaia, 2019, p. 8), among others. Since about a decade ago, however, trade policy in the EU has been used as a vehicle to advance on other non-trade issues such as environment or human rights. Therefore, trade agreements are not purely economic anymore.

This holistic and externalised understanding of trade in the EU has fuelled the concept of “normative power Europe.” An expression to explain how the EU seeks global trade competitiveness while promoting multilateralism abroad through its own example. Applying this concept to trade policy, the EU's commitment to multilateralism has evolved in a practice to benefit from the economic growth that trade enables while, at the same time, spread European regulations, standards and values abroad (May, 2012). Given the influence of the European market in the world, for most EU's trade partners it is worthwhile to adopt these standards because of the market's size.

The externalisation of the EU trade policy is mostly being exerted through bilateral trade agreements. Certainly, trade agreements are an instrumental part of EU trade policy. In order to advance on non-trade issues through trade, EU trade agreements are normally conceived taking into consideration economic development, social development and

environmental protection, in line with the changes of the Lisbon Treaty (Titievskaja, 2019). TSD chapters are the main instrument in a trade agreement to regulate commitments related to non-trade issues, mainly sustainability. In fact, the Court of Justice of the EU described TSD provisions as instrumental to achieve trade policy objectives and to comply with EU values of the EU treaties (Conconi et al, 2021).

In this regard, the EU has increasingly used trade policy to promote sustainability in relations with its trade partners. In the 2015 “Trade for All – Towards a more responsible trade and investment policy” Communication, the European Commission reflected its compromise to permeate trade with EU core principles and values such as sustainable development and fair trade. The Communication underlines the need to ensure that trade policy is in line with sustainable development objectives. It highlights the potential of FTAs to progress on the implementation of sustainable development. In fact, the Commission (2015b, p. 23) expresses the will to: “focus on the implementation of the sustainable development dimensions of FTAs; better link trade policy instruments with the aim of addressing labour rights and environmental protection; promote an ambitious and innovative sustainable development chapter in all agreements; and take into account sustainable development considerations in all relevant areas of FTAs.”

Similar ideas are present in other Commission’s publications. The European Green Deal Communication considers trade policy “as a platform to engage with trading partners on climate and environmental action” (European Commission, 2020a). On one hand, it re-emphasizes the existence of sustainable commitments in trade agreements and the EU’s pledge to strengthen their implementation and enforcement through new mechanisms such as the Chief Trade Enforcement Officer. On the other hand, the Communication discloses a normative power rhetoric by stating that the EU will continue to inspire partners to adopt rules with similar ambitions as the EU’s rules and remembers the role of the EU in setting standards for sustainable development across global value chains in order to shape international standards (ibid).

The Strategic Plan 2020-2024 (European Commission, 2020b, pp. 4, 9) understands trade policy as a tool to achieve broader EU objectives on supporting sustainable

development worldwide. The publication recalls that two of the general objectives of the von der Leyen's Commission to which DG Trade contribute are "An economy that works for people" and "A stronger Europe in the world" (ibid). These two general objectives will contribute to the specific objective 4 on "ensuring that trade policy is sustainable by effectively contributing to a wider set of EU policy goals, adherence to international commitments" (ibid, p. 10). To achieve this objective, the Commission will make all EU policies greener under the European Green Deal and in line with international commitments.

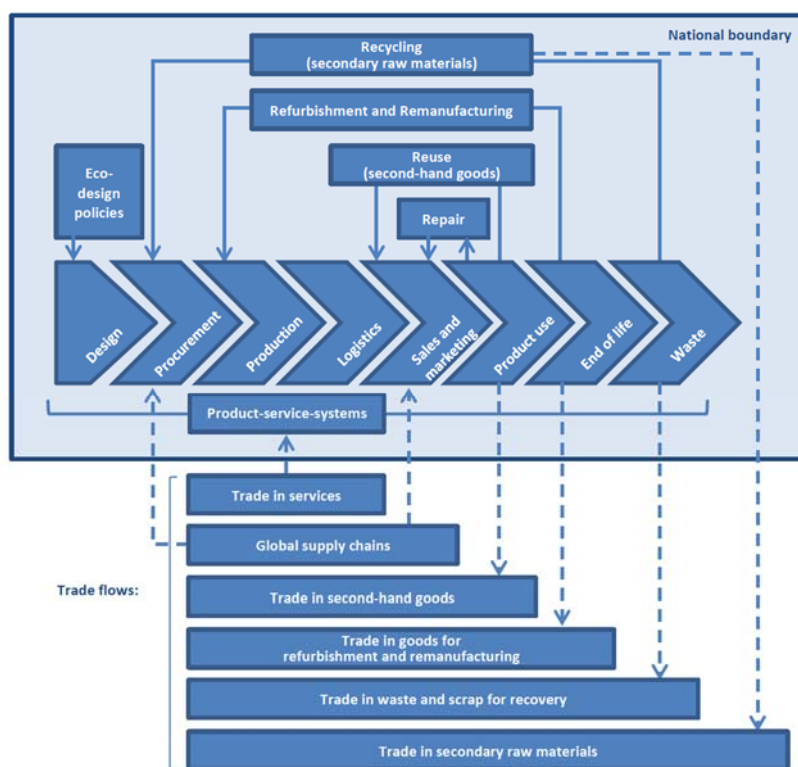
Recent developments on the contribution of DG Trade to this specific objective 4 were presented in the latest DG Trade Management Plan (European Commission, 2020c). The document expresses the commitment of DG Trade to contribute to sustainable development through trade by ensuring the effective implementation of TSD chapters under FTAs with trade partners and by advancing on the implementation of the Action Plan on TSD Chapters.

More recently, the 2021 Trade Policy Review focuses on the model of "open strategic autonomy." This concept reflects "the EU's ability to make its own choices and shape the world around it through leadership and engagement, reflecting its interests and values" (European Commission, 2021a). Open strategic autonomy is based on three pillars: resilience and competitiveness; assertiveness and rules-based cooperation; and sustainability and fairness (ibid). This revised trade strategy reaffirms the central role of sustainability in EU's trade policy (Blot & Kettunen, 2021).

CHAPTER 3. INTERACTIONS BETWEEN CIRCULAR ECONOMY AND TRADE

The progressive transition towards a circular economy will have important implications for trade at the international, European, and national level. Circular economy creates opportunities for trade and economic diversification, but the implementation of this economic model will disrupt trade flows in different manners (Yamaguchi, 2021). This disruption will have different impacts for developed and developing countries. It will also depend on the nature of the trade surplus, whether dominated by physical goods or immaterial services. A diagram developed by the OECD (ibid) better illustrates the nexus between international trade and circular economy throughout the stages of the product value chain distinguishing between national and international boundaries. Different techniques to extend or close the material loop (e.g. recycling, refurbishment, eco-design) intervene along the value chain. International trade comes into play at different levels of the value chain and through the implementation of circular methods such as reuse (e.g. trade in second-hand goods in the product use stage of the chain).

Figure 3 Linkages between international trade and the circular economy



Source: Yamaguchi (2018)

While circular economy initiatives are expected to lower the demand of primary raw materials, they can become a window of opportunity for trade in second-hand items, secondary materials, and waste. Raw materials also interplay with trade through potential trade restrictions on export of raw materials (Kettunen et al, 2019). Circular business models not only entail changes in trade in goods, but they can also trigger ample opportunities for the manufacturing service sector such as waste management. Thus, four main trade areas subject to transformations can be identified when introducing circular economy measures: trade in waste and scrap; trade in secondary raw materials; trade in second-hand goods; trade in goods for repair, refurbishment, and remanufacturing; and trade in services.

3.1. Trade in waste and scrap

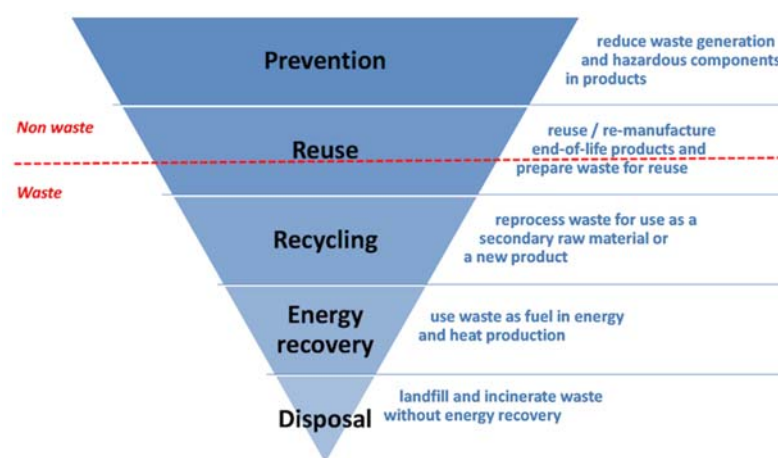
International trade with waste occurs when a country chooses “either choose not to or are unable to manage their recyclable waste streams but rather export them to other countries” (Kettunen et al, 2019, p. 15). Trade is most common in non-hazardous waste –mainly plastic, paper, and metal–, as opposed to hazardous waste (e.g. radioactive waste, clinical waste). The industry of waste and scrap has witnessed a continuous increase of global trade in both volume and value. According to OECD statistics, waste increased by 48% in weight and 183% in value over the period of 2003 to 2016 (Yamaguchi, 2021). Although patterns are evolving differently depending on the waste type as a result of a recent increase in new measures restricting some waste trade¹, this growth trend is expected to continue due to a number of factors, including an increase in global population and different recycling capacities among countries.

Trade in waste and scrap is directly connected to the very last stage of the supply chain, after the end of life of the product (see Figure 2). Once the end of life is reached (see Figure 3), a product can be reusable, recyclable, or become a non-recyclable final waste

¹ Trade in plastic has seen a decreased in recent years due to two main factors: the China solid waste import ban and the 2021 amendment in the Basel Convention to increase controls on the transboundary movements of plastic waste and scrap that are difficult to recycle and of electrical and electronic waste and used electrical and electronic equipment (Yamaguchi, 2021).

(Kettunen et al, 2019). Circular economy has a major role in this sense since it redefines waste by giving it a value as secondary raw material, advancing from its traditional consideration as 'non-good' with negative prices (Vallés, 2016) to a profitable good. However, trade flows itself does not indicate an increase or decrease in environmental pressures (Yamaguchi, 2021) as it is crucial to understand how traded waste is treated. Consequently, an increase in trade in waste and scrap can have both beneficial and detrimental consequences for the environment.

Figure 4 The hierarchy of waste



Source: OECD (2020)

On the one hand, a boost in waste trade can help achieve economies of scale in waste collection and offers opportunities to countries with a comparative advantage in waste management and sorting (Yamaguchi, 2021; van der Ven, 2020; OECD, 2020). If waste becomes a commodity, an increase in its value would prevent its disposal and would enhance global recycling rates. This will encourage countries with weak waste management systems to invest in their improvement to increase domestic recycling. Similarly, trade in waste is necessary for the circular economy because circularity promotes waste recovery, the practice by which waste serves a useful purpose by replacing other materials to create valuable products (Eurostat, 2014). A decrease in waste trade will lead to low levels of waste recovery and thus, a decrease in the supply of secondary materials. Consequently, there will be no materials circularity.

On the other hand, it is important to analyse the destination of exports and the quality of waste exports. For instance, a country might choose to export waste to avoid

recycling or disposal costs; but the export destination can be another country with laxer environmental requirements for waste treatment –mainly developing countries– and end up in a landfill. Similarly, when it comes to the quality of waste exports, not all traded waste and scrap is exported or imported to be recycled; there is an influx in waste imports unfit for processing due to its low quality and contaminating substances that is traded under “waste for recycling” (van der Ven, 2020).

These divergences in the quality of waste and the level of exigency of environmental policies and regulations trigger negative implications for public health and environment for importing countries that ultimately affect trade patterns. Firstly, importing countries might face a waste crisis due to the lack of proper infrastructure to process all the waste and the insufficient legal framework to execute recycling policies (Kettunen et al, 2019). Secondly, these disparities can incentivise illegal waste trade and dumping, facilitated by a lack of quality control, threatening legitimate trade in clean materials (van der Ven, 2020). Thirdly, the unsuitability for recycling of waste due to its low quality of waste decreases the value of waste as a commodity. To tackle these issues, importing countries are increasingly responding with a series of trade restrictions such as the China’s progressive ban on imported waste, which became a model to other countries.

The detrimental consequences of trade in waste and scrap are being reinforced by a lack of international standards and insufficient regulations. International trade in waste is primarily regulated by the Basel Convention², among other international agreements. However, there is currently no international harmonisation of the concept of waste, scrap or secondary material (Yamaguchi, 2018); the international standards to categorise different types of waste are inadequate as they fail to differentiate between waste and reusable and repairable waste (van der Ven, 2020); and the current HS codes that cover waste and scrap do not distinguish between those that are hazardous or non-

² The Basel Convention is an environmental agreement adopted in 1989 which regulates the transboundary movements of hazardous waste and other types of waste to protect human health and the environment. See: <http://www.basel.int/TheConvention/Overview/tabid/1271/Default.aspx>

hazardous (Yamaguchi, 2021). This lack of harmonisation negatively affects the availability and quality of data on waste and scrap flows.

If proper circular economy policies and frameworks are in place, “recyclable waste has the potential to become a resource with a market (i.e. commodity) and the pressures posed by the transboundary movements of waste can create opportunities for importing countries and a push to improve domestic waste management” (Kettunen et al, 2019). However, such benefits only occur when waste is appropriately recycled, re-used or repaired (ibid).

3.2. Trade in secondary raw materials

The exhaustion of raw materials is a major issue for sustainable development. Therefore, trade in secondary raw materials is an opportunity to reduce environmental impact –the production of secondary raw materials is usually less energy intensive than the production of primary materials and has less impact in terms of acidification, land use and terrestrial ecotoxicity (UNEP/IRP, 2020)– while maintaining economic growth. In fact, around 50% of industrial CO₂ emissions can be attributed to the production and processing of five basic materials – steel, cement, paper, plastic, and aluminium – most of which have secondary equivalents that are considerably less energy intensive to produce (McCarthy et al, 2018).

Substituting primary raw materials with secondary raw materials will decrease demand of primary raw materials and increase its circularity. Metals, non-metallic minerals, and recycling products are the core commodities in the circular transition: metals (mainly iron and steel) reflect almost 6% of total global exports while minerals a little less than 3% (Dellink, 2020). It is also worth noting that, in comparison with other trade interactions, geopolitics play a prominent role in trade in raw materials since natural resources are geographically unequally distributed. On the one hand, an increase in secondary material production can decrease imports and production of virgin material resources which in turn can reduce supply risks associated with future geopolitical issues (McCarthy et al, 2018). A decrease in the demand of primary raw materials will, on the

other hand, impose serious challenges to countries oriented to the exports of raw materials, which are typically developing countries.

Measuring international trade flows in secondary raw materials is challenging due to significant gaps of information caused by an absence of an internationally agreed legal definition of secondary raw material and the fact that “the current HS codes based on six digits do not allow distinguishing secondary raw materials from waste and scrap” (Yamaguchi, 2021). In the EU, however, the EU Circular Economy Package establishing a legal framework by setting the definitions, quality standards and criteria for secondary raw materials within the EU has allowed for better data collection.

The expansion of material quality standards, material content standards, certification schemes as well as eco-design, eco-labelling and government procurement schemes will be crucial to scale up in the secondary raw materials trade (ibid). Nonetheless, there are still significant intentional and unintentional barriers to trade stemming from a lack of international cooperation. For resource-rich countries, a circular transition of raw materials will be an agitating experience, although the transition will be an opportunity for economic diversification (UNEP/IRP, 2020).

3.3. Trade in second-hand goods

A transition towards circular economy promotes the increase in trade in second-hand goods. Second-hand goods relate to the product-use stage of the value chain (see Figure 2). Thanks to opportunities for reuse, secondary goods play an important role for prolonging the lifespan of the product or its materials. Data on global trade in second-hand goods is generally very scarce, making it difficult to understand the second-hand goods’ contribution to circularity. However, there are some data available for trade in second-hand textile, tyres, and vehicles. Furthermore, trends indicate a predominance of trade flows from developed to developing countries.

In all these sectors, there is an upward trend: in the last 30 years, global exports on second-hand textiles increased 12-fold by weight and 26-fold by value; global exports

on used and retreaded tyres grew 5-fold in weight and 11-fold in value; and, within an 18-year period, the number of EU exports of second-hand vehicles grew by 79% while intra-EU exports grew by 90% (Yamaguchi, 2021). The shift in consumer patterns towards more conscious choices that are greener and more ethical, the more affordable prices of second-hand products, and the proliferation of online platforms for resale are among the reasons for an increased trade in second-hand goods.

Even though secondary goods promote circularity by reusing materials and products to expand their end-of-life, many experts have warned of the potential risks. For example, it has been argued that imports of these types of goods may put additional pressure on the waste management systems of developing countries, especially when the goods in question have shorter lifespans than the corresponding goods in new condition (Steinfatt, 2020) and given that many second-hand goods contain toxic substances (Higashida, 2012). From the domestic policy perspective of an exporting country, these exports could be considered as “leakage” from the official system such as in EPR schemes³ as they are exported as used products (Yamaguchi, 2018). This is not illegal in principle, but still results in a reduction of material that can be recovered through the EPR scheme and may cause environmental and health damages, when leaked products are not managed in an environmentally sound manner after reaching their end-of life (Yamaguchi, 2021, p. 48). Additionally, an increase in secondary goods into developing countries can hinder the transition towards an energy efficient and low carbon economies (e.g. a second-hand car is less efficiency than a brand-new car) and undermine the ability to develop competitive local industries (UNEP/IRP, 2020; Yamaguchi, 2018). On the other hand, an increase in second-hand imports also creates employment opportunities, especially in industries such as clothing (UNEP/IRP, 2020).

³ Extended producer responsibility (EPR) systems/schemes: a policy approach (EPR) to make producers responsible –financial and/or physical– for the environmental impacts arising from their products throughout the product value chain. Assigning such responsibility could in principle provide incentives to prevent wastes at the source, promote product design for the environment and support the achievement of public recycling and materials management goals (Yamaguchi, 2021).

The main challenges for policy making in secondary trade are definition and classification related issues and trade restrictions. Regarding the first challenge, there is no internationally agreed definition for second-hand goods and, while there is HS classification distinction between waste and second-hand products, it is sometimes difficult to differentiate (Yamaguchi, 2021; Bellmann & van der Ven, 2020). Due to weak international regulations and lack of a proper distinction, an increase in secondary products may lead to a rise in illegal trade. In fact, a large amount of the trade in second-hand goods is illegal, often disguised as recycled materials, which are not supposed to include hazardous substances (Higashida, 2012). Additionally, some legally imported second-hand goods, supposedly for second-hand use, are also recycled for material use immediately after they are imported (ibid).

Given the economic and environmental benefits of the promotion of second-hand goods, the OECD has recommended to remove trade barriers to secondary goods and used products (Yamaguchi, 2018). Nonetheless, taking into account the associated trade-offs for developing countries, some nations have opted for imposing import restrictions or stricter controls on these goods. For instance, Tanzania, Kenya, Rwanda and Uganda agreed in 2015 to increase taxes on imported second-hand clothes, to develop their own industries, until a complete ban in 2019 (Kettunen et al, 2019). Another example is the Brazil-Tyres WTO case; Brazil adopted a ban on the importation of used and retreaded tyres on the basis of health and environment concerns (Steinfatt, 2020; UNEP, 2020; Yamaguchi, 2021). The WTO Panel recognised the negative implications for public health and environment of used tyres. However, this trade restriction was later declared inconsistent by the WTO Appellate Body as it included a discrimination emanating from the exemption of Mercosur countries' imports.

A study on the monitoring of trade in second-hand goods (Higashida, 2012) conclude that when the trade restriction is binding, if part of the legal imports is resold for material use, a stricter trade restriction decreases expected foreign environmental damage. When it is a nonbinding restriction and the goods serve not as second-hand

but as materials, an increase in the probability of monitoring may increase expected foreign environmental damage (ibid).

3.4. Trade in goods for repair, refurbishment and remanufacturing

Value-retention processes (VRPs) such as repair, refurbishment (i.e., reuse certain parts), and remanufacturing are product-life extending activities that increase circularity of products and materials. In fact, the adoption of VRPs can lead to the retention of substantially greater value in the system than recycling since VRPs enable the retention of the inherent value of the product, whereas recycling retains just the value of the material or resource that is recycled (Nasr et al, 2018). These activities even restore a used product to adapt it to new standards while minimising the environmental impacts associated with resource extraction and lower the costs to producers and consumers. In this sense, the IRP & the UNEP has estimated that repair, remanufacturing and comprehensive refurbishment can contribute to GHG emissions reduction by between 79% and 99% in appropriate sectors (ibid).

Goods for repair, refurbishment, and remanufacturing experience similar developments in foreign markets as in second-hand goods. An increase in trade in VRP products entails new dynamics for the services sector and creates job opportunities. However, the uptake of refurbished and remanufactured goods remains fairly limited despite of these multiple benefits due to the nature of the sectors that are suitable for refurbishment and remanufacturing such as heavy equipment, airplanes, vehicles, electrical and electronic equipment, and medical devices (Yamaguchi, 2021).

The trade regime for VRP goods is largely unfavourable. A main obstacle for trade in goods for repair, refurbishment, and remanufacturing is their wrong legal classification as waste (Yamaguchi, 2018). This theory was reaffirmed in the 2001 WTO Ministerial Conference in Doha, where it was noted that many trade barriers were in place because countries mistakenly associated these goods with used goods or waste (Steinfatt, 2020).

Due to this confusion, repaired, refurbished, and remanufactured goods are subject to barriers of different nature: regulatory and access barriers, collection infrastructure barriers, technological barriers, and market barriers. They translate into requirements to provide a "refurbished certificate" signed by the consulate in the country of origin guaranteeing that the imported product is "like new", prohibitions on imports if the equivalent goods are manufactured domestically or if they can be substituted for goods manufactured domestically or requirements for "special needs" test, among others identified by the WTO (ibid).

On the one hand, regulatory and access barriers are the most predominant category and, together with collection infrastructure barriers, interfere with the flows of VRP products by preventing the demand of such products (Nasr et al, 2018). On the other hand, technological (e.g. specialized labor and equipment requirements) and customer market (e.g. education about VRPs) barriers constrain the capacity for producers and consumers to engage with and adopt VRP options (ibid).

A re-examination of definitions and requirements can contribute to open new markets and generate environmental and social value with an eventual increase in international trade flows of VRP goods. Some efforts have been made under the WTO, however progress is still slow given the concerns of some countries over possible adverse effects on domestic producers of new goods with similar characteristics when importing VRP products, and on the transfer of newer technologies into developing countries (Steinfatt, 2020).

3.5. Trade in services

The services sector is experiencing a major revolution with ample opportunities for international trade. According to OECD data (Dellink, 2020, p. 20), trade in services gradually becomes a larger part of total exports as consumption patterns of all regions are more oriented towards services. As illustrated in the diagram (see Figure 2), different stages depend directly on services including "the product design stage through R&D or eco-design; the sourcing stage through the collection and sorting of waste material and

its transformation into secondary raw material; or the production stage through remanufacturing or refurbishing” (Tamminen et al, 2020, p. 11).

There are two main trends that can be identified as circular economy enablers in services: firstly, the potential for growth of several service sectors for circularity such as waste management and repair services to extend the product’s life as manufacturers substitute secondary for primary materials (McCharty et al, 2018); and, secondly, the fast-emerging opportunities of product service system –where direct ownership of products shifts to their access (e.g. Philips lighting service)–, collaborative models, enabled by the economic digitalization such as car sharing (e.g. Share Now) to improve energy and fuel efficiency or where food leftovers are monetized such as food sharing (e.g. Too Good to Go) to reduce waste (Vallés, 2016).

These new business models such as product service systems could support the circular economy concept by changing the pattern of material use in the economy and thus have potential to bring down environmental pressures that result from current systems. Nevertheless, they are not by default beneficial for the environment. In consequence, the sustainability of these systems must be taken into consideration (Yamaguchi, 2021).

A study conducted by IISD and SITRA (Tamminen et al, 2020, p. 24) concluded that most of the traded services related to circular economy, whether intermediate inputs or final output, include IT services; other professional, technical, and business services (such as technical testing or environmental consulting services); leasing or rental services without an operator; R&D services; maintenance, repair, and installation (except construction) services; sewage and waste collection services; and professional services related to construction services.

International trade in services is ruled by the GATS under the WTO, the agreement that sets global trade rules for the services markets. All policies on trade in services must consequently be compatible with the GATS⁴. The GATS includes provisions on the most-

⁴ As long as the country in question is a WTO member.

favoured-nation treatment obligation, transparency, commitment to market access and to national treatment. It distinguishes between four modes of services: cross-border, consumption abroad, commercial presence, and presence of natural persons.

The main difficulty when designing trade policies in services is the difficult to measure data on trade flows since they are not as easily traceable as goods. The lack of data accessibility explains the shortage of literature on the issue. Additionally, “there is no perfect correspondence between the service classification systems used for negotiating and policy-making purposes (i.e., GATS W/12024 and the CPC), and the balance of payments (BOPs) classification framework that is used for international trade statistics” (Tamminen et al, 2020, p. 27). This means that the data may differ broadly from real trade and can only offer a general idea of the trade in circular services.

There are two main challenges in services trade arising from the circular transition: trade barriers, and the digital divide that could deliver unequal benefits (UNEP/IRP, 2020). On the issue of trade barriers, services trade suffers from significantly higher trade barriers than trade in goods, including differences in qualification requirements and procedures, technical standards or licensing requirements. Market access barriers result from specific limitations imposed in a particular market on the number of services suppliers, the total value of services transactions or operations, or the number of natural persons allowed in the country. The circular economy often faces less protectionist pressure from import-competing producers compared to other sectors (Tamminen et al, 2020).

A survey conducted by IISD (ibid) found out that many of the export and import barriers to trade in services relate to regulatory variations on secondary material or waste trade, circular economy or GHG emissions related standards issues, or a shortage of supply/demand of circular related services due to old frameworks based on linear production models.

International harmonisation of policies will significantly reduce trade barriers for circular related services. From a developing country perspective, it is better to develop a uniform set of standards internationally than to be confronted with different standards in

different export markets. Thus, developing countries should participate in the process of developing international standards (UNEP/IRP, 2020). Within the EU, the most common obstacle is not the lack of harmony of regulations and standards but the divergences in their implementation.

The digital divide between developing and developed countries creates global disparities that are detrimental for a transition towards circular economy. Countries with circular economy approaches require access to technological solutions, not least the broad range of goods and services needed to improve resource and energy efficiency, replace traditional inputs with renewable or recovered goods, and manage solid and hazardous waste (Steinfatt, 2020). In this sense, it is crucial to open the market for digital technologies that contribute to the circular economy in order to increase accessibility for developing countries.

CHAPTER 4. GLOBALISING CIRCULAR ECONOMY THROUGH TRADE: THE ROLE OF EU TRADE AGREEMENTS

Due to the many interactions between trade and circular economy (see Chapter 3), trade plays a crucial role in enabling or preventing circularity. From a European perspective, the EU sees trade policy as a paramount tool to promote circular economy and to meet the objectives of the European Green Deal (see Chapter 2). As the largest trading bloc in the world and a major trading partner of many countries, the EU holds leverage to persuade and influence its partners. This influence is particularly exerted through trade agreements. This premise is crystallised in the “Leading efforts at global level” chapter of the new CEAP where the role of free trade agreements as circular enablers is considered as one of the seven actions are numbered to advance towards a global circular transition: “mainstreaming circular economy objectives in free trade agreements, in other bilateral, regional and multilateral processes and agreements, and in EU external policy funding instruments” (European Commission, 2020a).

The European Commission, through the Trade Policy Review for a revised trade strategy, refers to trade agreements as “platforms for enhanced cooperation pursuing our values and interests” (European Commission, 2021a). Trade agreements are presented as enablers of foreign policy interests not only to create economic opportunities but also to build alliances to promote sustainability. Additionally, the Trade Policy Review considers trade as a supporting means for a green transition and for the promotion of sustainable value chains that “are circular, responsible and sustainable” (ibid).

The integration of circular provisions in negotiated trade agreements can have profound implications for the EU and the trade partner in question at both the bilateral and regional levels. In fact, regional trade agreements are conventional trade policy tools with experience on how environmental regulation can be included in trade deals and on setting standards and mutual recognition schemes (Dröge et al, 2018). Trade agreements can advance towards a circular integration in different ways: circular economy and circular-related provisions from an environmental perspective in

sustainable development chapters; circular economy and circular-related provisions provisions in horizontal chapters such as trade in goods, government procurement or subsidies; targeted annexes to TBT or sectoral chapters; and a holistic and exclusive separate chapter dealing with the circular economy (Bellmann & Sell, 2021). While the first three channels have been explored in different agreements, hitherto no agreement have included an integral, separate chapter dedicated to the circular economy.

EU trade agreements, however, have limitations as policy tools to push towards circularity. While the EU has an exclusive competence in trade policy and to conclude international agreements in line with Article 3 TFEU, the Commission conducts negotiations of agreements with third countries on the basis of a negotiating mandate agreed by the Council in accordance articles 207 and 218 of the TFEU. These negotiating directives serve as a guideline for the Commission but include vague negotiating objectives. For this reason, even though the EU position is determined partly by the Commission's preferences, its degree of policy autonomy is limited by the content of the negotiating mandate (Meunier, 2007; Dür & Zimmermann, 2007). Since the issue of circularity is yet not central enough in the EU policy agenda, the probability of finding references to the circular economy or circular-related issues decreases.

Furthermore, trade agreements in the EU are –despite their potential– still underused to advance the circular agenda (Kettunen et al, 2019). According to the TREND ANALYTICS database on environmental provisions in FTAs, 300 different types of environmental provisions were included in 730 trade agreements between 1945 to 2018. The EU leads this ranking with 210 agreements and more than 3,500 environmental provisions. Although the database does not include circular economy in its classification of environmental provisions, the findings of this paper's literature review conclude that, up to date, there are six EU trade agreements with third parties that incorporate explicitly a reference to circular economy of which three are still under negotiation (see Annex 1). Nonetheless, provisions relevant to circularity such as those regarding the conservation of natural resources, and management of hazardous or domestic waste are quite numerous (Yamaguchi, 2021).

Beyond the content of the agreement text, another limitation is its implementation. A proper implementation is essential for effective progress. Considering that most trade agreements are too recent to be subject of evaluation, the enforcement of commitments is still difficult to assess (Kettunen et al, 2019) and consequently references are scarce and brief. Since 2015 when the concept gained importance in EU policy making with the adoption of the first CEAP, there has been four ex-post evaluations of FTAs: the one corresponding to the implementation of the EU-Mexico FTA in 2017, the EU-Korea FTA in 2019, the EU-Cariforum EPA in 2021, and the AAs with six Mediterranean partner countries⁵ in 2021 (European Commission, 2021b). Direct reference to circular economy only appears in the final ex-post evaluation report of the EU-Korea FTA in the context of a meeting of the Committee on Trade and Sustainable Development to inform Korea of the EU's circular economy strategy; and of the Euro-Mediterranean AAs in a brief analysis of the development of environmental regulations in such countries. In the 4th Annual Report on the Implementation of the EU's Trade Agreements published in 2020, there are not explicit or implicit references.

Following the different channels in use to incorporate the issue of circular economy in trade agreements, the subsequent sections will analyse the direct approach through environmental cooperation clauses in TSD and ERM chapters and the indirect approach through action clauses containing trade incentives and/or barriers in horizontal chapters, sectoral chapters and annexes.

4.1. Cooperation clauses in Trade & Sustainable Development Chapters and Energy & Raw Materials Chapters

Only six trade agreements⁶ mention explicitly though vaguely circular economy so far: the agreements in principle of the EU-Mercosur AA, of the modernization of the EU-Mexico Global Agreement, and of the modernization of the EU-Chile AA, and the EU's proposals for the EU-New Zealand FTA and the EU-Australia FTA (Yamaguchi, 2021;

⁵ Algeria, Egypt, Jordan, Lebanon, Morocco and Tunisia.

⁶ According to the WTO RTA Database, the EU has notified 54 trade agreements in force or which an early announcement has been made.

Kettunen et al, 2019; UNEP/IRP, 2020; Bellmann & Sell, 2021). Additionally, the EU-United Kingdom Trade and Cooperation Agreement, which is in provisional application, also includes a reference to circular economy. References to related issues are however more frequent in other FTAs (Ashraf et al, 2020; Kettunen et al, 2019).

A common denominator among these agreements is that a vast majority of circular provisions and references are included in the TSD chapters or to a lesser extent in the ERM chapters (see Annex 1), chapters which are characteristic of this new generation of EU FTAs. Nevertheless, explicit mention of circular economy only appears in TSD chapters, suggesting that the concept is largely cast as an environment-related concept rather than an economic concept (Sajous, 2019).

TSD chapters enable to include sustainable development standards in FTAs related mostly to two dimensions of sustainability –society and environment. Sustainability is, in fact, one of the objectives of the EU trade policy. There are currently eleven TSD chapters in implementation, being the TSD chapter in the EU FTA with South Korea the first one to enter into force⁷. Despite variations, the structure of EU TSD chapters contain three pillars that seek to promote: “the effective implementation of fundamental international labour (ILO) conventions and multilateral environmental agreements (e.g. CITES Convention, Rotterdam Convention, UNFCCC); a level playing field, by not lowering labour and environmental standards for the purpose of improving trade or attracting investment and ensuring effective implementation; and sustainable management of natural resources” (European Commission, 2017). The European Green Deal and the Trade Policy Review also include the intention to make the Paris Agreement an essential element of any FTA by including a binding commitment on its ratification and implementation (European Commission, 2019a; European Commission, 2021a).

The analysis of the last available versions of the texts or text proposals of these six agreements suggests that TSD chapters tend to include references which are general, since most are oriented towards cooperation under multilateral frameworks (e.g. the

⁷ The EU-Korea FTA had provisionally applied since July 2011 and formally ratified in December 2015.

UN High-level Political Forum for Sustainable Development or the Paris Agreement), and have vague vocabulary with wordings such as “the promotion of” and “work together to strengthen cooperation”. Nonetheless, there is no mention to MEAs that are more relevant to circularity such as the Basel Convention. This is not surprising since the aim of these chapters is primarily to cooperate and foster dialogue. These clauses are characterized by the lack of concrete incentives and the absence of references on possible ways of promotion in practice (Kettunen et al, 2019).

There are other key concepts related to circular economy that appear in the analysed TSD chapter texts. Following a keywords search⁸, the most frequent concepts are “sustainable production and/or consumption”, with reference in all agreements except in the EU-Mexico FTA; and “resource efficient economy” or “efficient use of resources,” with mentions in all analysed agreements (see Annex 1). These terms are included in the context of cooperation initiatives. Another important reference is the promotion of “eco-labels” in the EU-Australia, EU-Chile, EU-New Zealand, and EU-UK agreements. Similarly, in the EUMAA, it has been identified two references to cooperation in waste management and waste generation reduction.

A main obstacle of the prominence of circular provisions in TSD chapters in advancing towards a circular transition is the implementation and enforcement of such chapters. Following criticism from different stakeholders, the Commission published in 2017 a non-paper addressing discussion on TSD chapters concerning the need to make them more effective in delivering sustainable development. Subsequently in early 2018, the Commission issued a 15-point action plan to improve the effectiveness of TSD chapters.

While the provisions included in a TSD chapter are binding and subject to a dispute settlement mechanism, EU TSD chapters do not contemplate enforcement based on financial sanctions. This approach is challenging because the effectiveness of TSD

⁸ The keywords search include: waste/waste prevention/waste disposal/waste management, repair/reparability, durability, eco-design, life-cycle promotion, eco-label/labelling, remanufacturing, landfill, regenerate, redistribute, scrap, prolong, refurbish, second-hand, recycle/recycling, collect, secondary (raw) materials, efficient use of resources, efficient energy, sustainable consumption and/or production, extended producer-responsibility.

chapters might vary on the degree of influence of civil society in the EU's trading partner. Nonetheless, the application of sanctions is not necessarily the solution to a more effective implementation. The American and Canadian systems do include withdrawal of trade concessions or fines when the conclusions of the FTAs' dispute settlement mechanism identify a failure to meet the commitments of the TSD chapter. However, the efficiency of enforcement through sanctions is not consistently backed by evidence. Especially because of the challenges of establishing and proving a direct link between labour or environmental practices and trade flows, making the necessary conditions for a successful case almost impossible (Lowe, 2019).

The debate on the effectiveness of TSD chapters in EU FTAs did not consider sufficiently how to make circular provisions in trade agreements more mainstream until the recent Trade Policy Review. The revised strategy addresses the challenges of TSD chapters' implementation with the establishment of the Chief Trade Enforcement Officer position and an early review in 2021 of the 15-point action plan. Moreover, the intention to phase out fossil fuel subsidies and to progress towards a harmonisation of preferential rules of origin in FTAs can contribute to mainstream circular economy. Despite the significant limitations in scope and implementation, the inclusion of circular standards in TSD chapters can help partner countries to rethink standards and leapfrog to new economies; mitigate the spill over effects of EU circularity in third countries economies; and come up with transition solutions (UNEP/IRP, 2020).

On the other hand, cooperation clauses where it is possible to integrate circularity aspects can be also found in some FTAs in chapters dealing with the energy and raw materials sectors, ERM chapters. ERM chapters are instruments to reduce energy resource extraction and "ensure undistorted trade, fair trade and investment in raw materials that the EU economy needs for the green transition" as the European Commission (2019a) has reflected in the Green Deal Communication. FTAs entail a rise in cheaper trade in raw materials as a direct effect of trade barriers removal, however as the EU is moving away from biofuels internally (Transport & Environment, 2017), ERM chapters can reconcile these opposite positions because they have potential relevance

to deplete the demand for primary raw material by promoting efficient use of resources to contribute to a circular economy and to ensure the post-Paris decarbonisation.

The incorporation of ERM chapters in trade agreements has the origin in the “Trade for All” Communication in the context of improving access to energy and raw materials by setting rules on non-discrimination and transit; of encouraging energy efficiency and trade in renewables; and of ensuring a level playing field between state enterprises and other companies (European Commission, 2015b). These chapters are common in agreements with countries with a prominent food-based biofuels production often linked to biodiversity loss and deforestation (e.g. palm oil biodiesel). In the analysed agreements with ERM chapters (see Annex 1) –the EU-Chile and EU-Mexico Global Agreements, and the EU-Australia and EU-New Zealand agreements–, the reference to the promotion of efficient use of resources is, by far, the most frequent.

The potential of ERM chapters to promote circularity is also limited. ERM chapters are not as widespread as TSD chapters yet. In many cases, issues related to energy and raw materials are not included in a separate chapter in the text agreement but are rather included in broader chapters (e.g. the EU-Mercosur and EU-UK agreements).

4.2. Circularity-pushing action clauses

From a policies perspective, circular economy will become a driver to support environmental policies across all sectors and sustainable industrial development. Trade policies are an important component of circular economy facilitation and expansion and will inevitably affect the transition. It is important to ensure that trade rules do not hinder the adoption of circular policies (e.g. import duties on second-hand vehicles). Conversely, it is equally important that circular measures do not become obstacle to trade or be declared incompatible into conformity with WTO rules or other relevant international frameworks (e.g. Basel Convention). In other words, there needs to be “a balance between enabling countries to adopt measures to protect the environment while ensuring non-discriminatory trade” (UNEP/IRP, 2020).

The WTO law is governed by two main principles of the trading system that are common in most agreements: the most-favoured-nation treatment⁹ and the national treatment¹⁰. The EU and its Member States, as WTO members, are bound by these principles. However, “the protection of human health or safety and/or the health of animals, plants and the environment is considered a ‘legitimate objective’” to impose trade restrictions in certain circumstances (Sajous, 2019). These exceptions are contained in Article XX GATT, but the measures should not be applied in arbitrary or discriminatory manner. In the particular case of circular economy, the exceptions worth noting are: “(b) necessary to protect human, animal or plant life or health” and “(g) relating to the conservation of exhaustible natural resources if such measures are made effective in conjunction with restrictions on domestic production or consumption.” Such exceptions, if correctly justified and used in a non-discriminatory manner, are the basis of any action clause in the trade agreements related to circular economy promotion.

Action clauses in FTAs that help to contribute to the circular transition can be introduced in chapters related to the harmonisation of product definitions and tariffs; TBTs; market access for circular goods and services; subsidies; and public procurement.

4.2.1. Product definitions and tariff classifications

There are numerous ambiguities among products relevant to circular economy as a consequence of a lack of international consensus and the proliferation of regulations at the domestic level. As it was pointed out in Chapter 3, no internationally recognised definitions for most goods that promote circular practices exist, among them: non-hazardous waste, hazardous waste, scrap, secondary raw materials, goods for refurbishment and remanufacturing, or second-hand goods (van der Ven, 2020; Yamaguchi, 2021; Sajous, 2019). The divergences in the regulatory definitions of such products create additional tariff classification issues, i.e. misalignment between the Basel Convention and the Harmonised System (HS).

⁹ Countries cannot discriminate other trading partners.

¹⁰ Countries cannot treat imported goods or services less favourably than national goods or services.

The absence of international consensus gives rise to involuntary regulatory trade barriers. For instance, given the lack of distinction in HS codes between hazardous and non-hazardous waste, determining if a waste import is hazardous or non-hazardous must be done during the customs inspections (van der Ven, 2020). Considering that establishing a solid international framework is a lengthily process and that progress at international level is slow, trade agreements can steer mutual consensus by incorporating agreed definitions or classification differentiations. This understanding can become the basis for larger recognition at the international level. The literature review suggests that this channel is still underused in the context of the EU.

4.2.2. Technical barriers to trade (TBT)

TBT measures are actions based on processes and production methods. Technical measures include standards, technical regulations and conformity assessments. They are crucial for circular economy because they help to differentiate products manufactured using circular methods from common production methods. In fact, they constitute over half the environment-related notifications and measures in the WTO for the period 2006-2018 (Bellmann & van der Ven, 2020). Due to their application, TBT measures can take various forms and affect predominantly to the design and production phases such as eco-labelling standards and material content requirements.

One of the main issues arising from TBTs is its domestic character. Technical measures are usually designed and implemented at the national level (e.g. landfill taxation, carbon tax, container deposit legislation), which can always constitute a problem for international trade due to the differences across jurisdictions and impose additional costs for exporters (ibid). In this sense, technical measures might have diverting impacts. On the one hand, the recognition and unification of common quality standards and policies aligned to circular economy can shift production process and methods towards circularity. On the other hand, insufficient international understanding has prevented further harmonisation, converting technical measures into non-tariff barriers to trade. International harmonisation is important because the impacts of circular measures surpass national borders due to the propagation of transboundary value-chains.

It is in this scenario characterised by a regulatory heterogeneity where trade agreements can make valuable contributions towards circularity. Trade agreements can act as cooperation platforms to agree on minimum mutual standards, mutual recognition and equivalence, harmonisation, and exchange of information (Bellmann & Sell, 2021; van der Ven, 2020; Bellmann & van der Ven, 2020). For instance, the EU's ambitious standards for reducing materials flows must be safeguarded in the EU trade agreements and the international trade system (Dröge et al, 2018). EU trade partners should adhere to EU standards or, in case of diverging interest, both parties should find a common approach to prevent the agreement to become an obstacle for sustainability objectives.

However, the level of ambition of provisions related to circular standards and regulations may vary on the level of economic integration –although they can also serve to deepen economic integration– and trust among trading partners (Bellmann & Sell, 2021; Bellmann & van der Ven, 2020). Provisions and/or chapters in trade agreements concerning circular economy related TBTs may include, among others: commitment to exchange information on TBTs; cooperation on voluntary labelling schemes; mutual recognition of conformity assessment results; harmonisation or equivalence of specific standards or regulations; and participation in the development of international standards (Bellmann & Sell, 2021; van der Ven, 2020; Bellmann & van der Ven, 2020).

4.2.3. Market access for circular goods and services

Trade agreements are essential policy tools to open market access for circular products and products that are relevant to circularity. The liberalisation of key markets can incentive trade in circular goods and services by reducing or removing duties on goods and by facilitating foreign direct investment in key services sectors (van der Ven, 2020) while preventing a preferential treatment of like products in new condition.

Trade agreements can also include tariff rate quotas and reduced tariffs to goods complying with specific environmental requirements and remove export restrictions such as export bans and quotas (Bellmann & van der Ven, 2020). Export restrictions affect widely to waste and scrap. In cases of trade agreements between like-minded

countries with sufficient infrastructure to process waste, the parties can agree on a mutual removal of export restrictions for waste and scrap eligible for recycling (ibid).

Services liberalisation relevant to circularity can optimise resource use and minimise waste (van der Ven, 2020). While such liberalisation has been limited to specific few sectors, i.e. environmental services such as sewage services and waste disposal and recycling services, “supportive services, such as design, engineering, research and development, and digital services, are just as important” (Bellmann & Sell, 2021, p. v).

Some FTAs explicitly cover trade related issues in specific sectors where it is possible to integrate circularity aspects to sector-specific principles and regulatory actions to further mainstream circular economy (Kettunen et al, 2019): the remanufactured and repaired goods markets. Provisions that promote circularity in relation to the remanufactured and repaired goods market are found in the EU-Australia, the EU-Chile, EU-Mercosur, EU-New Zealand, and EU-UK agreements. These articles prevent the application of any customs duties in goods that have been temporarily imported or exported to be repaired or avoid a less favourable treatment for remanufactured goods over goods in new condition. In this sense, by protecting repaired and remanufactured goods of potential trade barriers, these provisions create favourable conditions for the trade in such products to ultimately improve their circularity.

4.2.4. Subsidies

Provisions on government subsidies in trade agreements may encourage the re-alignment of public spending, contribute to a shift in trade patterns towards circular trends and to improve transparency through notification obligations. Provisions of such kind are on the rise given the slow progress made in multilateral talks (Bellmann & Sell, 2021). Trade agreements can serve as vehicles to reduce subsidies that contribute to over-exploitation of natural resources, the use of fossil fuels and primary raw materials while increasing subsidies on recycling, research and innovation, and secondary raw materials (Yamaguchi, 2020).

Since subsidies on primary raw materials may decrease the marketability of secondary materials, an increment in subsidies to secondary raw materials and on recycling along with a reduction of the support to primary production can disincentivise the demand for primary materials as the price for secondary raw materials will be more attractive. For instance, a reduction of support measure to fossil fuels can make the primary production less attractive and incentivise the demand for recycled plastic, which in turn will increase recycling rates of plastic waste and help boosting circularity.

Nonetheless, no EU FTA has any relevant provision on subsidies with the sole intention of promoting a circular economy. The EU-Singapore FTA does include a provision spurring the reduction of fossil fuel subsidies but with the aim at reducing GHG emissions (Bellmann & Sell, 2021; Yamaguchi, 2020).

4.2.5. Public procurement

Provisions in trade agreements setting preferences for more conscious choices can contribute to mainstreaming green public procurement. In this sense, governments can choose alternatives that optimise the use of resources, increase material circularity and have high rates of recyclability and reparability over options with higher environmental impact. A shift towards green public procurement may bring new trade opportunities to innovative companies (Yamaguchi, 2021). It can also have a persuasive effect on companies to consider circular production methods.

Trade agreements can include minimum environmental criteria, including circular standards, in public procurement without violating the non-discrimination principle (Bellmann & Sell, 2021). The EU-UK, EU-New Zealand and the EU-Australia FTAs do include a provision in their public procurement chapters allowing procuring entities to consider these environmental criteria for the procurement procedure. The EU-Mexico and EU-Mercosur agreements have also similar clauses, though going a step further by including a clause on the adoption or application of technical specification to promote the conservation of natural resources or protect the environment.

CHAPTER 5. CASE STUDY: CIRCULAR ECONOMY IN THE EU-MERCOSUR TRADE AGREEMENT

5.1. State of play of the bilateral trade relations between the EU and Mercosur

Mercosur is a regional integration organization based on the creation of a common market and the promotion of free trade that was established in 1991 by the Treaty of Asunción. Currently there are officially four full member states: Argentina, Brazil, Paraguay, and Uruguay (Venezuela was suspended in all its rights and obligations as a state party given the current internal situation of the country). The bilateral trade relations between the EU and Mercosur gained impetus after Mercosur became a customs union and the upgraded Interregional Framework Cooperation Agreement (IFCA) between the EU and Mercosur, which included the negotiation of an FTA, was signed in 1995 (Gómez Arana, 2017). The agreement serves as the basis for the negotiation of long-term regional cooperation. Regarding the environment, the document includes provisions on environmental protection cooperation on article 17 which calls for encouraging “awareness of the issues of environmental protection and the rational use of natural resources in all fields of interregional cooperation,” paying special attention to global issues (IFCA, 1995).

Initially, the approach towards Mercosur of the Commission and the Council was not homogenous due to the opposed interests of business associations –in favour of the agreement– and the agricultural sector –opposing the agreement–, and because of the different postures between pro-free trade member states and members with a protectionist position (Gómez Arana, 2017). Nevertheless, formal negotiations for an AA with Mercosur encompassing political dialogue, trade and economic issues –including an FTA– and cooperation started in 2000 after the Council published in 1999 its negotiating directives on the basis of the IFCA¹¹.

¹¹ The negotiating mandate has never been officially published by the EU. It was leaked by the anti-trade agreements platform *bilaterals.org*. The document seems official and exclusively in French.

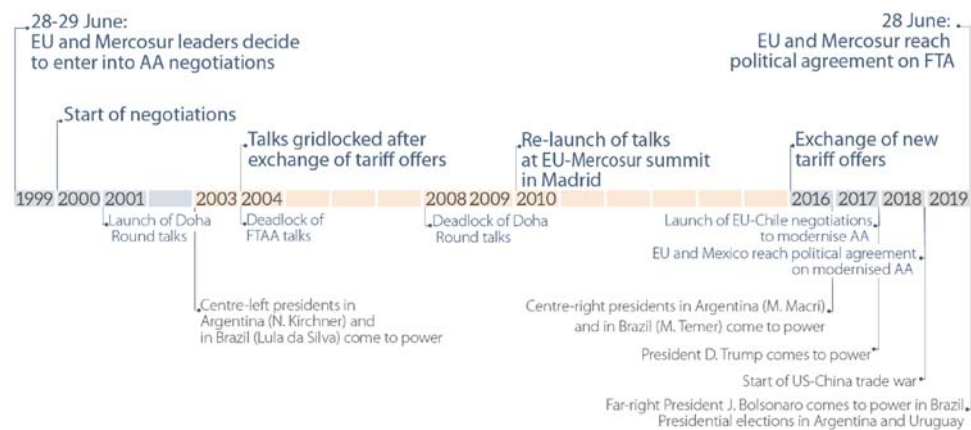
Regarding sustainability issues, while no direct mention to circular economy is included in the negotiating mandate, section 13 covers the matter of the environmental cooperation with indirect references to the rational use of natural resources:

Le but de la coopération sera de promouvoir la protection de l'environnement et l'utilisation rationnelle des ressources naturelles dans l'optique d'un développement durable. La coopération sera axée sur: les projets visant à renforcer les structures et les politiques du Mercosur en matière d'environnement; les échanges d'informations et d'expériences, y compris sur les règles et les normes; la formation et l'éducation dans le domaine de l'environnement; l'assistance technique et l'adoption de programmes communs de recherche régionale (European Commission, 1999).

The negotiation process of the trade pillar of the EUMAA has been one of the longest and more complex in the EU trade history, lasting 20 years since the launch of the EU's negotiating mandate. A main challenge has been the divergence of objectives of the negotiating parties. The traditional EU position during negotiations has been to promote regional integration, liberalise market access for Mercosur's goods, remove or reduce non-tariff barriers and access to public procurement in Mercosur, while Mercosur has aimed to eliminate or lower EU import tariffs, obtain tariff rate quotas for agricultural products with comparative advantage, reduce tariff for EU industrial goods and to prepare domestic industry for EU competition (Grieger, 2019).

Negotiation rounds took place between 2000 and 2004 when they were suspended as a result of a lack of understanding between the parties (Gómez Arana, 2017). In spite of many in-between attempts to re-launch talks, negotiations were resumed in 2010 at the EU-Mercosur Madrid summit (Gómez Arana, 2017; Cienfuegos Mateo, 2016) but were again stalled as a consequence political and economic instability in the Mercosur countries and new dynamics within the trade bloc. In 2016, after new pro-trade leaders took office in Brazil and Argentina and an exchange of new tariff offers, negotiations gained a stronger push (Grieger, 2019). An agreement in principle on the trade pillar of the EUMAA –the last pillar to be agreed– was reached on 28 June 2019. The updated final report of the sustainability impact assessment was published in December 2020. The agreement is now on the signature and conclusion stage in the EP and Council.

Figure 5 Chronology of the negotiations between the EU and Mercosur



Source: Grieger/EPRS (2019)

5.2. State of play of circular economy, environmental and sustainability initiatives in Mercosur and the Latin American Region

Initiatives related to circular economy in Latin American countries are on the rise, though they are mainly focused on waste management. Like in other regions, the most significant actions are taken at the national level. According to Schröder et al (2020), six common categories of policies to promote circular economy have been identified in Latin America (see Annex 2): national roadmaps and strategies; waste management policies; technical measures (mainly EPR); material resource efficiency and recycling targets; fiscal policies such as taxation and subsidy removal; and product policies.

The spread of circular initiatives in the region is however limited due to several challenges. On the one hand, low levels of transparency and accountability of institutions create institutional boundaries and prevent circular economy to be institutionally considered as a multi-sector issue instead of a sole environmental concept (ibid). On the other hand, low investment in science and technology slows down the transition. In addition, there is a lack of private sector engagement as companies perceive circular economy as a financial burden instead of an opportunity (ibid). Finally, the predominance of the extraction intensive industry –as many countries in the region are dependent on mineral resource exports– plays a major role in shaping policies related to circular economy (Schröder et al, 2020; Mulder et al, 2021).

In spite of the predominance of national initiatives, there have been new recent developments at the regional level. The Escazú Agreement¹² has entered into force on 22 April 2021. It is the first regional environmental treaty for the strengthening of environmental governance cooperation (CEPAL, 2021). Its implementation can act as a political drive for leaders in the region to speed up their ambitions towards a more sustainable and circular transition. Alternatively, the Regional Coalition on Circular Economy for Latin America and the Caribbean was established in February 2021 under the coordination of the UNEP to promote a regional cooperation platform with the aim of advancing the transition towards a sustainable system, increasing resilience in the context of the post-COVID era, and delivering on the 2030 Agenda and the Paris Agreement (UNEP, 2021a). Additionally, the continuity of the UNEP Forum of Ministers of the Environment of Latin America and the Caribbean meetings to address environmental issues of the region, identify priority areas and monitor developments in relation to such priorities under the ILAC indicators reveals the region's commitment to comply with international environmental accords (UNEP, 2008; UNEP, 2021b).

In the context of Mercosur, environmental action has been initially minimal as it was not conceived as an objective of the relationship between the members within the organisation. In this line, the Treaty of Asunción, the founding treaty, exclusively alludes to the preservation of the environment in the preamble. Nonetheless, the international context marked by the Rio Summit prompted the 1995 Taranco Declaration, which proposed the creation of a sub-working group on the environment tasked with formulating and developing strategies for common environmental protection (Baldecchi, 2014). In 2001, the Framework Agreement on the Environment was adopted to strengthen the commitment towards environmental protection cooperation in several thematic areas ranging from sustainable management of natural resources to environmentally sustainable productive activities.

¹² The Regional Agreement on Access to Information, Public Participation and Justice in Environmental Matters in Latin America and the Caribbean.

Up to now, no concrete circular strategy at the Mercosur level can be found under the framework agreement. However, there has been some policy developments. For instance, in 2007 Mercosur approved a decision regarding policies for the promotion and cooperation in sustainable production and consumption, a priority area of action for the ILAC (ibid). The decision calls on member states to develop national sustainable production and consumption policies and enumerates policy instruments to promote and cooperate on sustainable production and consumption (ibid).

Among the Mercosur member states, Uruguay stands out for its circular policies. The country developed its circular economy action plan in 2019 as well as other initiatives to promote circularity such as EPR schemes (Schröder et al, 2020). In addition, the country is currently developing a sustainable bioeconomy strategy and a roadmap for the forestry sector (Schröder et al, 2020; Mulder et al, 2021). Argentina is now in the process of elaborating a national circular economy plan. Regarding waste management, all member states have adopted national waste management legislation: Argentina in 2005, Brazil in 2010, Paraguay in 2017 and Uruguay in 2019 (Schröder et al, 2020).

5.3. Beyond circular economy: The TSD chapter in the EUMAA

The EUMAA has been the target of extensive criticism from stakeholders on both sides because of concerns about its expected negative consequences on sustainability, especially with regard to the environment and to Brazil, i.e. the deforestation of the Amazon. Some EU member states' parliaments are also reluctant to give the green light to the agreement. While the text contains a TSD chapter as a standard practice since 2011, critics state that the provisions on such chapter are too weak and limited considering the profound environmental implications that the agreement is expected to entail. As it has been discussed in section 4.1, TSD chapters include first and foremost cooperation clauses, therefore they are limited by nature. Nonetheless, the spotlight is now on how to improve implementation since the announcement of the 15-point action plan review by 2021, which is also a point of concern in this agreement.

As a response, on 7 October 2020, the EP issued a resolution on the implementation of the common commercial policy where it stressed the importance and potential of the agreement, pointed out the need for compliance with the TSD chapter but underlined that the agreement “cannot be ratify as it stands” (European Parliament, 2020). In a EU27-LAC Summit meeting on 14 December 2020, Commission officials expressed their intention to implement the agreement in a way that it is beneficial to both parties with respect to sustainable development (European Commission, 2020d).

In comparison with other agreements, the EUMAA emphasises more firmly the objectives and scope of the TSD chapter (article 1) to reflect a strong commitment to promote sustainability in trade. However, it is characterised by a weak wording. From an environmental sustainability perspective, the TSD chapter –as usual– addresses specific areas relevant to sustainability: MEAs (article 5) with references to UNFCCC, the Paris Agreement, the Convention on Biological Biodiversity and the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES); climate change (article 6), calling on the effective implementation of the Paris Agreement; biodiversity (article 7); forests (article 8), tackling illegal logging but failing to address soy, beef and sugar farming on illegal deforested land (FERN, 2020); fisheries and aquaculture (article 9); and scientific and technical information (article 10).

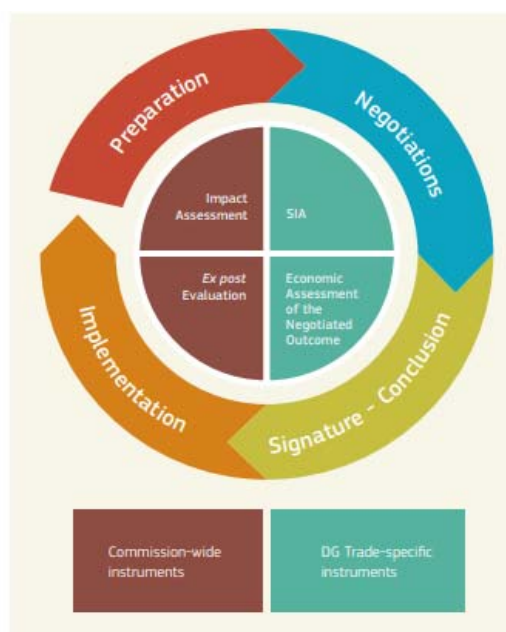
With respect to circular economy, article 13 on working together on TSD is the most relevant. Nevertheless, like in other FTAs, it is only timidly addressed. As pointed out in section 4.1, the promotion of circular economy is directly mentioned in the article (see Annex 1). This article also calls for the collaboration of the parties on the management of hazardous waste, eco-labels and sustainable consumption and production initiatives that are crucial for a circular transition. Yet, from a structural viewpoint, this provision is characterised by its vagueness as it is a mere enumeration of best endeavour clauses without specific binding commitments included. In consequence, TSD provisions do not link the implementation of the trade agreement with verified progress in sustainable development (Blot & Kettunen, 2021).

5.4. Strengthening circular economy throughout the EUMAA

The EUMAA will be implemented progressively and will impact mostly on agricultural and industrial products. The agreement will remove tariffs on 82% of agricultural EU imports from Mercosur while Mercosur will remove tariffs on 93% (Baltensperger et al, 2019; Timini & Viani, 2020). For sensitive agricultural products (e.g. meat, sugar cane), tariff-rate quotas are foreseen. Regarding trade in industrial goods, tariffs will be removed on the total of EU imports and Mercosur will remove tariffs on 90% of industrial goods imports (Baltensperger et al, 2019; Timini & Viani, 2020). The EUMAA also covers, among others, sanitary and phytosanitary standards, provisions to promote trade in services and establishment, rules to regulate e-commerce, provisions for government procurement –this is the first time Mercosur will open up their markets–, provisions protecting IPRs and over 350 European Geographical Indications, and provisions containing technical regulations/standards (European Commission, 2019b).

There are certain provisions in the text with high relevance to circular economy beyond the TSD chapter (see Annex 1). A significant number of provisions refer to repaired goods in order to avoid discrimination from liked products in new condition (article 4, chapter on customs duties). Nonetheless, the most emphasis on circularity issues is still

Figure 6 EU assessment and evaluation tools and the trade policy cycle



Source: European Commission (2016a)

restricted to the TSD chapter with its considerable limitations.

To evaluate the potential impact of the agreement for circularity, it is worth examining the assessment and evaluation tools of the Commission to support the trade policy cycle: impact assessments (IAs) prior to the start of the negotiations; sustainability impact assessments (SIAs) in the negotiating phase; economic assessment of the negotiated outcome during the signature/conclusion; and ex-post evaluations during implementation

(European Commission, 2016). Considering that the agreement is in the signature and conclusion stage, IAs and especially SIAs are the most relevant tools in this case study.

The IA of the EUMAA was published in 2011 by the JRC. The main objective of such tool is to assess whether a trade negotiation is the best way to improve trade relations with the specific partner or issues that should be covered in the negotiation (ibid). It does so by verifying the existence of a problem, by identifying its underlying causes, by assessing whether EU action is needed, and by analysing the advantages and disadvantages of available solutions and their impacts (ibid). The IA for the EUMAA presented simulations of two alternative hypothetical versions of the agreement based on different models under the assumption of a Doha Round Agreement (Burrell et al, 2011):

- The CGE model, GLOBE, simulates the economy-wide impacts of the trade policy changes involving all sectors of the two regional blocks.
- The partial equilibrium model, CAPRI, simulates only the impacts generated by changes in agricultural trade policy and incurred by the agricultural sectors of the two regions.

The Sustainability Impact Assessment (SIA) tool supports major trade negotiations and is carried out by external consultants. While an IA report does not offer an insight of the sustainability impact of a possible agreement, SIAs assess how a trade agreement could affect economic, social, human rights, and environmental issues in the EU and in the partner country and propose measures to maximise the likely benefits of the agreement or to mitigate possible negative impacts (European Commission, 2021b). The first SIA for the EUMAA was published in 2009 by the University of Manchester (Kirkpatrick & George, 2009). Given that negotiations extended, the final report of a new SIA was published in December 2020 to provide an updated picture of the potential impacts (Mendez-Parra et al, 2020).

In the updated handbook on SIAs, the Commission reflected the need to include in SIAs an assessment of the contributions of the agreement to greening the economy, to resource efficiency and to sustainable consumption and production (Kettunen et al,

2019). The newest SIA is limited in scope as it only carries out an assessment of the impact in sectors that are expected to grow; within the agricultural sector, the analysis is focused on the use of water and pesticides and on the biodiversity impact of sugar and ethanol production (Blot & Kettunen, 2021); and it lacks a circular economy assessment.

The trade concessions made in the agreement and the findings of the SIA report provide a picture of the anticipated trade trends once the EUMAA is implemented. From the most significant trends, some assumptions affecting circularity and considering its linkages with trade (see Chapter 3) can be made.

Firstly, an increase in trade in industrial goods –mainly cars, car parts, machinery, clothing and chemicals– will have an important impact for circularity. Cars, car parts and machinery are particularly interesting because of its high recyclability and reparability. the agreement includes some provisions to promote reparability, but it is unclear how they will translate into practice. Considering that these industrial goods will be exported to Mercosur from European countries where circular manufacturing models are already in place, it is paramount for circularity not to break their life cycle. Through government procurement provisions, European companies can tender public contracts in the recycling sector in Mercosur countries to extend the life cycle of imported industrial goods and advance towards a green public procurement. In this context, stronger cooperation towards the harmonisation of standards is desirable as reflected in article 4 of the TBT chapter of the agreement.

Secondly, a rise in trade in agricultural commodities –especially soybeans, beef, dairy and sugar– will have a high environmental burden. In many cases, agricultural commodities are also raw materials for industrial goods (e.g. soybeans for biodiesel production). Initiatives to include circular standards by means of trade have potential to reduce such impact. In this line, eco-labels and other technical measures promote transition to a circular economy through sustainable production and consumption. Technical cooperation between the agreement's parties is paramount to unify method and can serve as a precedent for wider international cooperation.

5.5. Assessing the potential of the EUMAA to mainstream circularity through trade: proposals for policy initiatives

Under the assumptions developed in the former section, a series of policy measures to promote circular economy integration in trade policy –mainly EU trade agreements– is presented. These policy proposals follow the Life Cycle Thinking (LCT), a basic concept to provide support in better integrating sustainability into policy making by assessing the burdens of products, sector, and projects, adopting a holistic perspective –from raw material extraction to end of life (Sala et al, 2021; Sala, 2019). LCT aims at avoiding the shift of burdens (Sala et al, 2021; Sala, 2019) between environmental impact categories, between world regions and between life cycle stages. This thinking is of high relevance as it is at the core of the SDG12 and has been central in bold EU policies such as the European Green Deal, the 2020 CEAP and the Farm to Fork Strategy (Sala et al, 2021).

In policy making, quantifying potential impacts is a necessary step of evidence-based policy design. To do so, assessment tools are needed. Methodologies based on the life cycle assessment like the environmental/ecological footprint¹³ and the product environmental footprint are mentioned in the new CEAP for establishing a sustainable policy framework to measure environmental information. The life cycle assessment is an internationally standardized measure (ISO 14040:2006) addressing the environmental impacts of good and services throughout the life cycle (Sala et al, 2016). Considering that often the environmental burden of a product is assumed by the manufacturing country, footprints offer a more holistic approach as they assess the impact in both the consumer and producer countries. However, when a company wants to market its product as environmentally friendly, it faces a confusing range of choices of methods and initiatives resulting in costs for companies and confusion for consumers

¹³ The ecological footprint and the environmental footprint are two terms that refer to the same concept, a measure that calculates consumption understood as an amount of biological service consumed per unit time. It is the sum of the ecological footprint of production and the net ecological footprint resulting from the difference between imports and exports within international trade. (Global Footprint Network Standards Committee, 2009).

(European Commission, 2013). This lack of harmonization of standards, as it has been stressed in previous chapters, has become a real barrier to trade.

The application of assessment methods such as footprints can promote the establishment of harmonized circularity standards. Based on evidence collected through these methods, it becomes easier to translate into policy initiatives that reduce the impact on the life cycle with the aim at mainstreaming circularity. A real-life example is the pilot plan run by the EU under the Product Environmental Footprint (PEF) Programme on the study of the environmental footprint of coffee in eleven Latin American countries based on circularity aspects to define product environmental standards (Mulder et al, 2021). The coffee pilot is part of a wider project analysing eleven food products and fourteen industrial products (Frohmann, 2017, p. 15). To prevent divergences among standards, the PEF is intended to become the harmonized method to measure and communicate the life cycle environmental performance of products and organisations.

In spite of the interruption of the pilot study as a result of a clash of interests between the European manufacturers and the Latin American coffee producers (Frohmann, 2017), the initiative is particularly relevant because it can easily be applied to traded agricultural goods within the agreement to be used as raw materials for industrial products (e.g. the processing of soya bean for the production of tofu, soymilk, animal feed or biofuels). Coffee is a particular product; it plays a significant role in most Latin American economies as the region produces more than half of the world's coffee and it has a significant presence in the exportations. In addition, its growing is normally in hands of small enterprises and cooperative societies, introducing a social dimension to the issue. Lastly, the majority of the coffee consumed in the EU comes from this region.

From the study (ibid), there are a set of considerations to take into account:

- Most of the production in Latin American countries follows sustainable requirements. This production method is generally imposed by European manufacturers. The main issue lies in the price, which does not reflect the cost

and value of sustainable production. EU labels and certifications can be used to ensure that sustainable production is effectively recognised in the price.

- It is the only study including active participation of developing countries and the collaboration of big corporations and SMEs. Incorporating the views of developing countries is crucial to increase the accuracy of the collected data about the coffee growth and farming; for small coffee producers associations to acquire knowledge of the environmental impact associated to coffee farming and the respected assessment tools; and to have the possibility to influence the definition of a product standard affecting these associations by involving them in the process.
- Latin American producers state that they want to use their data for the designing of the PEF and differentiate between sustainable and non-sustainable production. Moreover, they consider that coffee farming also has positive environmental impacts that are not taken into account. For instance, coffee trees absorb CO₂ therefore coffee agroforestry has an important potential for the mitigation of climate change.
- No PEF should become a barrier to trade. As it has been previously stated, no circular policy should entail any restriction that might affect trade flows.
- The main objective is that Latin American producers compete in the EU market not only on price but also on environmental standards (Mulder et al, 2021).

This example showcases that, through technical cooperation under the framework of a trade agreement, there are opportunities to advance on initiative promoting circularity and simultaneously protect international trade –even make it more just and greener. Furthermore, the information obtained through the application of such policy tools enables better policy making based on evidence. The legal and institutional frameworks that a trade agreement offers can contribute to ongoing technical cooperation and to an eventual progressive and systematic incorporation of circular-related provisions in EU trade agreements.

CONCLUSIONS

Circular economy and related issues are of high relevance in the current policy agendas which are characterised by a strong sustainability approach. This is particularly relevant in the context of the EU, where the impetus of the European Green Deal has unleashed the development of a wide range of advanced policies to mitigate the negative impacts of the current global scenario marked by the COVID-19 pandemic and the climate change. Even though circular economy policies are adopted successfully in the EU, a common approach is needed because of the interconnectedness of the global value chains and the transboundary nature of circular economy.

The need for globalising circular economy has triggered the study of this topic. Circularity objectives are settling in all over the world, but circular economy is not mainstream enough yet. Given the consensus around the benefits of the application of circular economy for sustainable development and the fact that most circular initiatives are adopted at the domestic level, this thesis has intended to analyse possibilities to mainstream EU circular economy policies beyond its borders.

The EU has recognised this need for globalising circular economy in its new CEAP. This Communication expresses the intention to enhance circular economy objectives in FTAs. In fact, trade policy is one of the biggest strengths of the EU and it is mostly exerted through trade agreements. Trade agreements have proved over time to be excellent tools to externalise EU objectives, standards and values. However, the analysis carried out in this thesis suggests that a better policy coherence is needed to meet the intentions of the new CEAP and the European Green Deal because the current state is not enough: most agreements only include timid references to circular economy, without clarifying ways of implementation.

It must be underlined that the EU objective to mainstream circularity in the trade policy has come forward very recently with the new initiatives under the European Green Deal which was unveiled in the end of 2019. The margin of time is too short to observe the effects of these policies. Therefore, the findings of this analysis should be taken into

consideration in relative terms as it is likely that new advancements in this regard will occurred in the upcoming years.

Nevertheless, the text of an FTA is not written in stone. Modifying the text of a trade agreement is a regular practice to adjust it to current developments and to better reflect the evolution of the bilateral relations between the trade partners. In fact, this paper has provided two examples: the trade agreements with Chile and Mexico, which entered into force in 2003 and 2000 respectively, are now again under negotiation to be modernised. Even though a particular FTA might be considered to lack ambition in a certain domain, as it has been the case of the EUMAA (see chapter 5), it is very likely that the agreement becomes a subject of further development or upgrade in the future in order to include more ambitious provisions. For this reason, it can be argued that it is preferable to have an agreement rather than not have one since the existence of an agreement offers, at least, a legal framework and allows the EU to keep its trade partner to coordinate their initiatives.

From the review of the EU FTAs in chapter 4, it is surprising to see that, despite differences in economic development, circular economy provisions in EU FTAs with countries from the Latin American region are more frequent and detailed than in agreements with EU like-minded partners such as South Korea, Canada or Japan. The limitations of this study have impeded to find the reasons explaining this finding. This question can be subject of study for further research.

Open issues such as the lack of international consensus in defining key concepts and the misalignments in tariff classification schemes are currently preventing faster developments for a global transition towards a circular economy. On the bright side, the EU's commitment to circular economy as a means to achieve sustainable development through trade and the recent developments in circular economy as part of regional (e.g. Circular Economy Coalition for Latin America) or international initiatives (e.g. first WTO meeting on trade and environmental sustainability) demonstrate that policies and initiatives towards a circular integration where international trade plays a key role will become more abundant both in frequency and relevance.

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Annex 1: Comparative table of EU FTAs texts with references to circular economy and/or circular-related issues

Name of the trade agreement	Status	Direct references to circular economy in TSD Chapters	References to relevant circular economy related issues in TSD, ERM and other chapters
Modernisation of the EU-Chile Association Agreement (Trade Part)	Ongoing negotiations (process launched in 2017, the 10 th round took place in May 2021).	<p><i>TSD Chapter, Article 12 on Working together on trade and sustainable development:</i></p> <p>“The Parties recognise the importance of working together on trade-related aspects of environmental and labour policies in order to achieve the objectives of this Agreement. They may work jointly on, inter alia: [...] (f) initiatives on sustainable consumption and production, including those aimed at promoting a circular economy and green growth and pollution abatement”</p>	<p><i>ERM Chapter, Article 13 on Standards, technical regulations and conformity assessments:</i></p> <p>“With a view to preventing, identifying and eliminating unnecessary technical barriers to trade in renewable energy and energy efficiency goods, the provisions contained in [TBT Chapter] shall apply to these goods.”</p> <p><i>ERM Chapter, Article 14 on Research, development and innovation:</i></p> <p>“The Parties shall promote research, development and innovation in the areas of energy efficiency and renewable energy [...], inter alia:</p> <ul style="list-style-type: none"> a) promote the dissemination of information and best-practices on environmentally sound and economically efficient energy policies [...] b) promote research, development and application of energy-efficient and environmentally sound technologies, practices and processes [...] c) promote bilateral cooperation in pre-normative research in the area of renewable energy equipment and energy efficiency.” <p><i>ERM Chapter, Article 15 on Cooperation on energy and raw materials:</i></p>

			<p>“The Parties shall cooperate in the area of energy and raw materials with a view to, inter alia: [...] b) coordinate their positions in international fora where trade and investment issues related to energy and raw materials are discussed and foster international programmes in the areas of energy efficient, renewable energy and raw materials [...]”</p> <p><i>TSD Chapter, Article X.5 on Trade and Climate Change:</i></p> <p>“2. [...] each Party shall: [...] (b) promote the mutual supportiveness of trade and climate policies and measures thereby contributing to the transition to a low greenhouse gas emission, resource-efficient economy and to climate-resilient development; (c) facilitate the removal of obstacles to trade and investment concerning goods and services of particular relevance for climate change mitigation such as sustainable renewable energy, energy efficient products and services, including by addressing non-tariff barriers and through the adoption of policy frameworks [...].”</p> <p><i>TSD Chapter, Article 9 Trade and Responsible Supply Chain Management:</i></p> <p>“4. The Parties shall, as appropriate, promote trade in goods contributing to enhanced social conditions and environmentally sound practices, such as environmental goods and services contributing to a resource-efficient, low-carbon economy, goods whose production is not linked to deforestation, or goods that are the subject of voluntary sustainability assurance schemes, for example fair and ethical trade schemes and eco-labels;”</p>
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			<p><i>Chapter on Trade in Goods, Article X.9 on Repaired Goods:</i></p> <p>“1. No Party shall apply a customs duty to a good, regardless of its origin, that re-enters the Party's customs territory after that good has been temporarily exported from its customs territory to the customs territory of the other Party for repair.”</p> <p>“3. No Party shall apply a customs duty to a good, regardless of its origin, imported temporarily from the customs territory of the other Party for repair.”</p> <p><i>Chapter on Trade in Goods, Article X.10 on Remanufactured Goods:</i></p> <p>“1. No Party shall accord to remanufactured goods of the other Party a treatment that is less favourable than that it accords to equivalent goods in new condition.”</p> <p>“[...] j) the development of international trade in a way as to contribute to sustainable development in its economic, social and environmental dimensions”</p>
Modernisation of the EU-Mexico Global Agreement (Trade Part)	Agreement in principle (negotiations concluded in April 2020).	<p><i>Article 1 on Objectives and Scope:</i></p> <p>“Consistent with the instruments referred to in paragraph 2, the Parties shall promote: [...] (c) inclusive green growth and circular economy so as to foster economic growth while ensuring the protection of the environment and promoting social development.”</p>	<p><i>ERM Chapter, Article 11 on Cooperation on ERM:</i></p> <p>“The Parties shall cooperate in the area of energy and raw materials with a view to, inter alia:</p> <p>[...] b) coordinate their positions in international fora where trade and investment issues related to energy and raw materials are discussed and foster international programmes in the areas of energy efficiency, renewable energy and raw materials;</p>

		<p><i>Article 13 on Working together on trade and sustainable development:</i></p> <p>“The Parties recognise the importance of working together in order to achieve the objectives of this Chapter. They may work jointly on inter alia: [...] (i) the promotion of inclusive green growth and circular economy [...]”</p>	<p>[...] g) promote the efficient use of resources (i.e. improving production processes as well as durability, reparability, design for disassembly, ease of reuse and recycling of goods) [...]”</p> <p><i>Chapter on Public Procurement, Article 9 on technical specifications and tender documentation</i></p> <p>“6. A Party may allow procuring entities to take into account environmental and social considerations, provided they are non-discriminatory and they are linked to the subject-matter of the contract.</p> <p>7. For greater certainty, a Party, including its procuring entities, may, in accordance with this Article, prepare, adopt or apply technical specifications to promote the conservation of natural resources or protect the environment”</p>
<p>EU-Mercosur Association Agreement</p>	<p>Agreement in principle (negotiations concluded in June 2019).</p>	<p><i>Article 13 on Working together on trade and sustainable development:</i></p> <p>“The Parties recognise the importance of working together [...] on inter alia: [...] (q) sustainable consumption and production initiatives consistent with SDG 12, including, but not limited to, circular economy and other sustainable economic models aimed at increasing resource efficiency and reducing waste generation”</p>	<p><i>Chapter on Customs Duties, Article 4 Goods Re-Entered After Repair:</i></p> <p>“2. A Party shall not apply customs duty to goods defined in paragraph 1 [re-entered after repair], regardless of their origin, that re-enter its customs territory after those goods have been temporarily exported from its customs territory to the customs territory of the other Party for repair, regardless of whether such repair could be performed in the customs territory of the Party from which the goods were exported for repair.”</p> <p>“4. A Party shall not apply customs duty to goods, regardless of their origin, imported temporarily from the customs territory of the other Party for repair.”</p> <p><i>TSD Chapter, Article 13 on Working together on trade and sustainable development:</i></p>

			<p>“The Parties recognise the importance of working together [...] on inter alia:</p> <p>[...] (d) voluntary sustainability assurance schemes such as fair and ethical trade schemes and eco-labels through the sharing of experience and information on such schemes;</p> <p>[...] (k) the sound management of chemicals and waste;</p> <p>[...] (o) private and public initiatives contributing to the objective of halting deforestation, including those linking production and consumption through supply chains, consistent with SDGs 12 and 15”</p> <p>[...] (q) sustainable consumption and production initiatives consistent with SDG 12, including, but not limited to, circular economy and other sustainable economic models aimed at increasing resource efficiency and reducing waste generation”</p>
EU-New Zealand FTA (proposal)	Under negotiation (negotiating rounds launched in June 2018).	<p><i>Article X.4 on Multilateral Environmental Governance and Agreements:</i></p> <p>“The Parties shall work together to strengthen their cooperation on trade-related aspects of environmental policies and measures, bilaterally, regionally and in international fora [...]. Such cooperation may cover inter alia: (a) initiatives on sustainable production and consumption, including those aimed at promoting a circular economy and green growth and pollution abatement [...]”</p>	<p><i>ERM Chapter, Article X.17 Cooperation on Energy and Raw Materials:</i></p> <p>“The Parties shall cooperate in the area of energy and raw materials with a view to, inter alia: h) promote the efficient use of resources (i.e. improving production processes as well as durability, reparability, design for disassembly, ease of reuse and recycling of goods)”</p> <p><i>TSD Chapter, Article X.5 on Trade and Climate Change:</i></p> <p>“2. [...] promote the mutual supportiveness of trade and climate policies and measures thereby contributing to the transition to a low greenhouse gas emission, resource-efficient economy and to climate-resilient development [...]”</p>

			<p><i>TSD Chapter, Article X.9 on Trade and Responsible Supply Chain Management:</i></p> <p>“4. The Parties shall promote trade and investment in goods and services beneficial to environment or contributing to enhanced social conditions such as goods and services that are the subject of voluntary sustainability assurance schemes, for example fair and ethical trade schemes and eco-labels.”</p> <p><i>Chapter on National Treatment and Market Access for Goods, Article X.9 Repaired Goods¹⁴:</i></p> <p>“1. No Party shall apply a customs duty to a good, regardless of its origin, that re-enters the Party's customs territory after that good has been temporarily exported from its customs territory to the customs territory of the other Party for repair”</p> <p>“3. No Party shall apply a customs duty to a good, regardless of its origin, imported temporarily from the customs territory of the other Party for repair”</p> <p><i>Annex on Motor Vehicles and Equipment and Parts Thereof, Article X.8 on Remanufactured Equipment and Parts:</i></p> <p>“1. No Party shall accord to remanufactured equipment and parts of the other Party a treatment that is less favourable than that it accords to equivalent equipment and parts in new condition.”</p>
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¹⁴ Similar provisions in Chapter on Customs and Trade Facilitation, Article X. 20 on Repaired goods

			<p><i>Chapter on Public Procurement, Article X.2 on Additional Disciplines:</i></p> <p>“7. A Party may:</p> <p>(a) allow procuring entities to take into account environmental and social considerations throughout the procurement procedure, provided they are non-discriminatory and they are linked to the subject-matter of the contract; and</p> <p>(b) take appropriate measures to ensure compliance with its obligations in the fields of environmental, social and labour law, including the obligations under Chapter X (Trade and Sustainable Development)”</p>
<p>EU-Australia FTA (proposal)</p>	<p>Under negotiation (negotiating rounds launched in June 2018).</p>	<p><i>Article X.4 on Multilateral Environmental Governance and Agreements:</i></p> <p>“The Parties shall work together to strengthen their cooperation on trade-related aspects of environmental policies and measures, bilaterally, regionally and in international fora [...]. Such cooperation may cover inter alia: (a) initiatives on sustainable production and consumption, including those aimed at promoting a circular economy and green growth and pollution abatement [...]</p>	<p><i>ERM Chapter, Article X.17 Cooperation on Energy and Raw Materials:</i></p> <p>“The Parties shall cooperate in the area of energy and raw materials with a view to, inter alia: h) promote the efficient use of resources (i.e. improving production processes as well as durability, reparability, design for disassembly, ease of reuse and recycling of goods)”</p> <p><i>TSD Chapter, Article X.5 on Trade and Climate Change:</i></p> <p>“[...] promote the mutual supportiveness of trade and climate policies and measures thereby contributing to the transition to a low greenhouse gas emission, resource-efficient economy and to climate-resilient development [...]</p> <p><i>TSD Chapter, Article X.9 on Trade and Responsible Supply Chain Management:</i></p>

			<p>“4. The Parties shall promote trade and investment in goods and services beneficial to environment or contributing to enhanced social conditions such as goods and services that are the subject of voluntary sustainability assurance schemes, for example fair and ethical trade schemes and eco-labels.”</p> <p><i>Chapter on National Treatment and Market Access for Goods, Article X.9 Repaired Goods¹⁵:</i></p> <p>“1. No Party shall apply a customs duty to a good, regardless of its origin, that re-enters the Party's customs territory after that good has been temporarily exported from its customs territory to the customs territory of the other Party for repair”</p> <p>“3. No Party shall apply a customs duty to a good, regardless of its origin, imported temporarily from the customs territory of the other Party for repair”</p> <p><i>Chapter on Public Procurement, Article X.2 on Additional Disciplines:</i></p> <p>“7. A Party may:</p> <ul style="list-style-type: none"> (a) allow procuring entities to take into account environmental and social considerations throughout the procurement procedure, provided they are non-discriminatory and they are linked to the subject-matter of the contract; and (b) take appropriate measures to ensure compliance with its obligations in the fields of environmental, social and labour law, including the obligations under Chapter X (Trade and Sustainable Development)”
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¹⁵ Similar provisions in Chapter on Customs and Trade Facilitation, Article X. 20 on Repaired goods

EU-United Kingdom Trade and Cooperation Agreement	Provisional application (negotiations concluded December 2020) in	<p><i>Article 8.4: Multilateral environmental agreements</i></p> <p>“5. The Parties shall work together on trade-related aspects of environmental policies and measures, including in multilateral fora, such as the UN High-level Political Forum for Sustainable Development, UN Environment, UNEA, multilateral environmental agreements, the International Civil Aviation Organization (ICAO) or the WTO as appropriate. Such cooperation may cover inter alia: (a) initiatives on sustainable production and consumption, including those aimed at promoting a circular economy and green growth and pollution abatement; [...]”</p>	<p><i>Title I, Chapter 1, Article Goods.8 on Repaired goods:</i></p> <p>“1. A Party shall not apply a customs duty to a good, regardless of its origin, that re-enters the Party’s territory after that good has been temporarily exported from its territory to the territory of the other Party for repair.”</p> <p>“3. A Party shall not apply a customs duty to a good, regardless of its origin, imported temporarily from the territory of the other Party for repair.”</p> <p><i>Title I, Chapter 1, Article Goods.9 on Remanufactured goods:</i></p> <p>“1. A Party shall not accord to remanufactured goods of the other Party treatment that is less favourable than that which it accords to equivalent goods in new condition.”</p> <p><i>Title I, Article Road.12 on Taxation:</i></p> <p>“4. The spare parts imported for repairing a vehicle on the territory of one Party that has been registered or put into circulation in the other Party, shall be admitted under cover of a temporary duty-free admission and without prohibition or restriction of importation.”</p> <p><i>Title XI, Chapter 8, Article 8.5 on Trade and climate change:</i></p> <p>“2. [...] promote the mutual supportiveness of trade and climate policies and measures thereby contributing to the</p>

			<p>transition to a low greenhouse gas emission, resource-efficient economy and to climate-resilient development [...].”</p> <p><i>Title XI, Chapter 8, Article 8.9 on Trade and investment favouring sustainable development:</i></p> <p>“[...] continue to promote (c) trade in goods and services that contribute to enhanced social conditions and environmentally sound practices, including those subject to voluntary sustainability assurance schemes such as fair and ethical trade schemes and eco-labels”</p> <p><i>Title VI, Chapter 1, Article 285 on Environmental, social and labour considerations:</i></p> <p>Each Party shall ensure that its procuring entities may take into account environmental, labour and social considerations throughout the procurement procedure [...]</p>
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References to relevant circular economy related issues in the TSD Chapter of the EU-South Korea FTA
<p><i>Article 13.6 on Trade favouring sustainable development</i></p> <p>“1. The Parties reconfirm that trade should promote sustainable development in all its dimensions.</p> <p>2. The Parties shall strive to facilitate and promote trade and foreign direct investment in environmental goods and services, including environmental technologies, sustainable renewable energy, energy efficient products and services and eco-labelled goods, including through addressing related non-tariff barriers. The Parties shall strive to facilitate and promote trade in goods that contribute to sustainable development, including goods that are the subject of schemes such as fair and ethical trade and those involving corporate social responsibility and accountability.”</p>

Source: Author based on the selected FTAs (see Bibliography)

Annex 2: Key national circular economy policy initiatives in Latin America

Category of policy measure	Key measures	Examples
National roadmaps and strategies	action plans, strategies, pacts, and roadmaps	<p>Circular Economy Action Plan in Uruguay</p> <p>National Strategy for the Circular Economy in Colombia</p> <p>Circular Economy Pact in Ecuador</p> <p>Circular Economy Roadmap for Industry in Peru</p> <p>National Strategy for the Circular Economy in Argentina</p> <p>General Law of Circular Economy in Mexico</p>
Waste management policies	National legislation on waste management	All countries in the region
Technical measures	EPR schemes	Brazil, Colombia, Chile, Costa Rica, Honduras, Mexico, Peru and Uruguay
Material resource efficiency and recycling targets		<p>Plastic bag bans or restrictions in Haiti, Chile, Colombia, Panama, Paraguay, Antigua & Barbuda</p> <p>Plastic bag material composition requirements in Colombia and Paraguay</p> <p>Policy for increasing the Recycling of Raw Materials in Cuba</p>
Fiscal policies	Taxation, incentives and subsidy removals	<p>Annual incremental tax allocation for single use plastic bags in Peru</p> <p>Tax exemptions for reusable bag imports in Antigua & Barbuda</p>
Product policies	Eco-design, single-use product bans and product lifetime extension	Ban on import, marketing and distribution of polystyrene containers in Costa Rica

Source: Author based on Schröder et al (2020) and Mulder et al (2021).