




Executive Summary



Implementing Circular Economy is becoming more mainstream, which translates into new regulatory pressures for companies. Besides regulatory drivers, developing consumer preferences will drive companies towards more circular business models.

In March 2020, the European Commission adopted a new circular economy action plan. It is one of the building blocks of the European Green Deal, Europe's agenda for sustainable growth. The EU's transition to a circular economy is expected to reduce pressure on natural resources and to create sustainable growth and jobs. It is also a prerequisite to achieve the EU's 2050 climate neutrality target and halt biodiversity loss. The European Green Deal is expected to have a global impact as future products will require innovation and creative engineering in order to continue to sell in the European Union.

Furthermore, as part of the EU "Sustainable Finance Action Plan", the EU Taxonomy aims at establishing a clear classification system to mobilise finance for sustainable growth. The EU Taxonomy includes "The Transition to a Circular Economy". The action plan announces initiatives along the en-tire life cycle of products. It targets how products are designed, promotes circular processes, encourages sustainable consumption, and aims to ensure that waste is prevented and the resources used are kept in the EU economy for as long as possible.

Hence, both from a product market and financial market perspective, Circular Economy implementation will be critical.

So why wait?

Building circularity in product designs and formulations now prepares businesses for the time when governmental legislation (at least in Europe) will require it.

SDiD researched how companies are implementing Circular Economy (CE) in their activities by checking how they report on it. This study gives valuable status quo insights and provides an overview of challenges for implementing CE.

Although environmental, social and governance (ESG) topics have gained growing importance in the corporate sphere over the last years, reporting on CE is not receiving enough attention yet.

When it comes to establishing and reporting a CE program/strategy, companies read the signs of the times; however, disclosing implementation details is lagging by far. Even if a strategy is in place, there still seem to be obstacles in collecting and reporting on organizational aspects, stakeholder engagement or dedicated key performance indicators.

“We can now use 30 years of climate change as a true innovation engine. We can reinvent all our materials to be ‘good’ from biological or technical systems. We now have the expertise. Together, it’s now time to act.”

| Michael Braungart, Cradle-to-Cradle Founder

Survey Spotlights

The survey spotlights the main findings within Circular Economy (CE) reporting by corporations.

1

Comprehensive CE reporting is rare

Only five of the 444 companies (1.1%) report on all six CE categories we researched.

2

Recycling waste rate disclosure is just below 50%

With 48.2% of all companies reporting waste recycling rates, this category is the main reporting focus.

3

Disclosure of CE governance (hence implementation) needs improvement

With 43% of companies reporting a CE strategy, companies are still reluctant to report on implementation aspects, such as organisational structures, stakeholder or membership programmes.

4

Companies disclosing CE strategies, report highest on the most relevant CE key performance indicator


Companies disclosing a CE strategy have a reporting rate of 29.3% for recycled material input, whereas companies not disclosing a CE strategy only have 6.5% reporting rate.

5

Recycled plastic content is a reporting topic for the Consumer Staples sector

33% of the companies in the Consumer Staples sector, which comprises of fast-moving consumer goods, report recycled material input rates. We observe that recycled materials content was mostly linked to the input of recycled plastics.

Survey Framework



Considering the crucial role of the production-oriented sectors for a successful transition to a resource-efficient economy, the inclusion of CE in the EU Taxonomy can be a valuable trigger to speed up the transition. Since publication of criteria for Climate Change Mitigation, in 2021 and 2022 many financial institutions have focussed on building up know-how on implementing Taxonomy regulations establishing internal processes to avoid allocation of funds to non-resilient projects.

Implementing circular practices, however, is still perceived as a challenge both among strategic financial market participants and the real economy. Within this context, the study intends to understand the preparedness of global companies for implementing CE by researching how companies operating in the production-oriented sectors report on this topic. Additionally, the study builds capacities to spread know-how of CE and how to implement it.

“Here’s where redesign begins in earnest, where we stop trying to be less bad and we start figuring out how to be good.”

| **William McDonough**, Cradle to Cradle:
Remaking the Way We Make Things

This study, conducted for the first time for fiscal year 2021, is an assessment of the current CE reporting status of 444 companies included in 13 world’s leading stock market indices.

The assessed data is based on one of the world’s most comprehensive sets of CE data researched by SDiD.

As matter of principle, only publicly available information, such as corporate websites and reports were reviewed and analysed.

The 444 companies surveyed belong to the following five business sectors:

3.6 %	Consumer Discretionary (16 companies with Information Technology focus)
20.3%	Consumer Staples (90 companies)
30.6%	Industrials (136 companies)
23.4%	Information Technology (104 companies)
22.1%	Materials (98 companies)

and are part of the following worldwide stock market indices:

- AEX (Netherlands) 9 companies
- BEL (Belgium) 5 companies
- CAC (France) 20 companies
- DAX (Germany) 15 companies
- FTSE (UK) 40 companies
- Hang Seng (Hong Kong) 15 companies
- IBEX (Spain) 9 companies
- MIB (Italy) 10 companies
- Nikkei (Japan) 107 companies
- PSI (Portugal) 7 companies
- S&P 500 (USA) 192 companies
- SMI (Switzerland) 8 companies
- Straits Times (Singapore) 7 companies



Geographical spread

28%

Europe

123 companies

29%

Asia


129 companies

43%

USA

192 companies

Study Objectives



The survey provides a detailed perspective at CE reporting and insights for business leaders, company boards, and ESG and sustainability professionals. It is meant to offer guidance on good business practice to corporate professionals who prepare their own organisations' CE reporting. It is also designed as a guide to investors, asset managers and ratings agencies who now factor CE information into their assessments of corporate performance and risk.

The survey is based on several months of research, with our professionals analysing 444 company financial reports, corporate responsibility reports and websites. The number of companies and markets involved in the survey makes it one of the most comprehensive pieces of research on CE reporting available in the world.

Our goals were as follows:

- Raise awareness of CE;
- Give an overview of the worldwide status on CE reporting;
- Identify best CE reporting practices, as well as the most limiting obstacles;
- Develop recommendations to improve CE communication.

We are convinced that CE information should include more than a mere list of metrics and issues to be disclosed. It must present a clear picture of the company's goals and strategies, as well as quantitative data to show the successful implementation of targets and to demonstrate that the company meets the expectations of and the requirements set by regulators and stakeholders.

This study will be conducted annually.

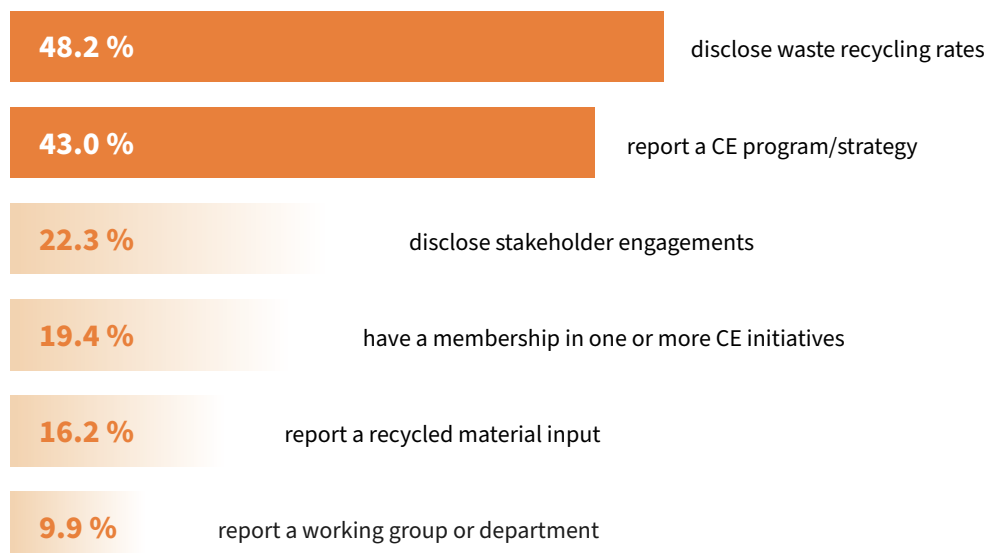
What we researched to determine the status quo of CE reporting

To identify the current situation regarding CE reporting, we researched CE governance indicators and quantitative data. We analysed 444 companies in detail, seeking answers to the following six questions:

1. Does the company report a CE program/strategy?
2. Does the company report about a working group or department that is set up particularly for CE?
3. Is the company a member of a CE initiative?
4. Does the company report about engagement to integrate stakeholders, like suppliers or clients?
5. Does the company report recycled/reused material input rates? If yes, how much (%) is it and which materials are affected?
6. Does the company report recycling waste rates? If yes, how much (%) is it and which materials are affected?

What we discovered

Based on the six questions, it shows that the reporting focus differs substantially:



Comprehensive CE reporting is rare

Only five of the 444 companies (1.1%) disclose information on all six research topics in their publications. These companies are AB InBev S.A., Kirin Holdings Co. Ltd., Legrand S.A., Logitech AG and Microsoft Corp.

Waste recycling rate disclosure is just under 50%

Almost 50% of the companies report waste recycling rates. Mostly, one rate for waste is disclosed. Detailed classification of waste recycling rates on a materials group level is sporadically available, but is not widespread yet.

Disclosure of CE governance needs improvement

With 43% of companies reporting a CE strategy, one would expect more governance details supporting CE implementation activities. However, companies are still reluctant to report on organisational structures, stakeholder or membership programmes. This raises the question of whether these companies are truly committed to CE implementation.

Companies disclosing CE strategies, report highest on the most relevant CE key performance indicator.

The presence of a CE strategy has a positive impact on the reporting of the most relevant key performance indicator for CE: recycled material input. 29.3% of the companies with a CE strategy report recycled material input rates, while only 6.5% of the companies without a strategy have information on recycled/reused material input rates. Mostly, companies provide details of which specific recycled materials are used in their production processes.

CE reporting across business sectors

For the survey we considered companies that are assigned to the following four business sectors:

Consumer Staples (90 companies), Industrials (136 companies), Information Technology (120 companies, including 16 IT companies from business sector Consumer Discretionary), Materials (98 companies).

An analysis of sector specific CE reporting shows two interesting findings:

1 The reporting about **waste recycling rates** across industry sectors is almost identical: 47.8% of the companies in Consumer Staples report recycling rates, with an equal percentage for Industrials. Similarly, 46.7% of the companies in Information Technology and 51.0% of the companies in Materials disclose recycling rates.

51.0% Materials

47.8% Consumer Staples

47.8% Industrials

46.7% Information Technology

Surprisingly, reporting on waste recycling rates is at an identical level across all four industry sectors, indicating that this topic is taken seriously without further ado.

2 Reporting on **recycled material input rates** differs a lot depending on the business sector: Only 6.6% of the companies in Industrials and 10.0% of the companies in Information Technology disclose recycled material input rates, whereas we observe higher rates of 21.4% in the Materials and 33.3% in the Consumer Staples sectors.

33.3% Consumer Staples

21.4% Materials

10.0% Information Technology


6.6% Industrials

For the Materials sector, due to the often high value of secondary materials, recycling of copper, aluminum, steel, paper and cardboard, waste recycling at the production source has been undertaken for almost as long as these materials have been used, and typically in the absence of any policy intervention. It is an economically driven process.

For the Consumer Staples sector, which comprises of fast-moving consumer goods, we observe that recycled materials content was mostly linked to the input of recycled plastics. The discussion about plastic waste and ocean plastics definitely shows its impact on how companies are performing and reporting with regards to recycled plastic input.



About this survey



A SDiD team led by Mr. Erik van Buuren produced this study, which was co-authored by Katharina Staab.

A specific methodology was developed for the Circular Economy analysis of organisational reporting.

Erik van Buuren is a leading practitioner and chief analyst in ESG investment management and product & process development for the Circular Economy. He has organized innovation projects with asset managers, companies, NGOs, and international agencies since 1994.

He is founder of SDiD, a dedicated platform for transparent and comparable ESG data.

He holds a Master's degree in Materials Science and Engineering and has specialised expertise in applying ESG integration and stewardship frameworks within the financial sector.

Erik was advisor to the Dutch Government's Cradle-to-Cradle initiatives and co-initiator of the Circular Economy Hotspot in the Netherlands, focusing on the positive impacts of circularity.

Besides, he was a key-note speaker during the official documenta14 programme in Athens and a jury member of the German Design Prize 2012-14 appointed by the German Minister of Economics. For the EU Commission, he was a member of the technical steering group for environmental management in the automotive and metal processing industry from 2014-16.

In the early 1990s, as a researcher with EPEA Internationale Umweltforschung, he co-developed formative product studies in Asia, Europe and the USA based on "Intelligent Product System" methods that set the groundwork for Cradle to Cradle® products. In the late 1990s, as an analyst in London, he operationalised initial ESG research for the foundation of the Dow Jones Sustainability Index®.

For contacts and further information:

SD Identity UG

Veteranenstrasse 24

10119 Berlin

Website: sdid.eu

E-mail: info@sdid.eu