POLICY PAPER

SME priorities for the upcoming Circular Economy Act

Key messages

The Circular Economy Act should reinforce Europe's strategic autonomy, supply chain resilience, and place prevention, reuse, repair and remanufacturing at the core of the framework. Its ambition must be matched with coherent implementation that delivers practical and workable enablers for SMEs to scale circular business models.

Reduce duplicative paperwork and compliance costs for SMEs through harmonised Extended Producer Responsibility rules via a digital system providing common definitions and standardised "Once-Only" reporting across Member States. Eco-modulation criteria must be phased in gradually with fee schedules published early. Revenues must be transparently reinvested in prevention, reuse, repair and high-quality recycling.

Introduce a tiered EU harmonisation of end-of-waste criteria accompanied by clear guidance on by-product status and mutual recognition across Member States, to invigorate cross-border trade in secondary raw materials. Simplified procedures for low-risk material streams should be established.

Improve separate collection systems through clear EU guidance on sorting practices, complemented by awareness campaigns to increase compliance. Investment in waste treatment capacity should remain consistent with waste prevention and recycling targets, ensuring materials are not diverted to incineration.

Correct price signals that favour the linear economy by extending VAT reductions to repair, reuse, refurbishment and high-quality recycling. Recognise circularity criteria in public procurement to decisive demand driver for scaling secondary materials and services.

SMEs require practical and accessible support to transition to circular business models. Circularity Hubs must be designed to provide hands-on guidance, digital tools, training and financial support including circularity vouchers. These hubs should foster industrial symbiosis, strengthen local value chains, and anchor the waste hierarchy in regional economies.

SMEunited | Rue Jacques de Lalaingstraat 4, B-1040 Brussels | +32 2 2307599 | info@smeunited.eu | **www.smeunited.eu**
EU Transparency Register: identification number 55820581197-35 | VAT BE 0441.251.911

Background information

SMEunited welcomes the European Commission's initiative to establish an ambitious and pragmatic Circular Economy Act (CEA), envisaged as a flagship initiative under the Clean Industrial Deal and the Competitiveness Compass for the 2024-2029 mandate. To succeed, the Act must strengthen the higher tiers of the waste hierarchy by prioritising prevention, sustainable-by-design products, reuse, repair and remanufacturing. The Letta report (2024) frames circular economy as a model centred on maintaining the value of products and materials for as long as possible, extending their lifespan within the economy while eliminating unnecessary material use. In this vein, preventing waste generation at the design stage, through durable, repairable, and reusable products, should be positioned at the core of the Act. By securing access to locally available, predictable and competitive resources, circularity must become a key driver of economic robustness for SMEs, while simultaneously supporting the competitiveness of the Single Market and the climate objectives of the European Green Deal.

To deliver on these objectives, the CEA should provide practical enablers for the development of a Single Market for secondary raw materials. The transition to a circular economy must remain inclusive and accessible for all small and medium enterprises (SMEs), which are essential drivers of circular innovation across value chains. By correcting price signals that favour the linear economy and harnessing legal clarity, the CEA can align environmental ambition with economic viability. This would provide SMEs with the clarity and incentives needed to confidently integrate circular business practices.

European SMEs are already actively investing in resource efficiency: 66% of SMEs report implementing waste reduction and energy-saving measures, while 57% have introduced actions to reduce material use (Flash Eurobarometer 549). Beyond operational improvements, 32% of SMEs already offer green products or services, with a further 12% planning to do so (Flash Eurobarometer 549). More broadly, 73% of European SMEs have invested in transitioning toward more circular business models (Flash Eurobarometer 441). This growing level of engagement indicates SMEs are already committed to contributing to the objectives of the CEA and are prepared to scale up their efforts if practical SME-focused enablers are in place.

Despite growing SME engagement, the prevailing economic and regulatory framework continues to favour the linear 'extract-use-throw away' model. A prominent market failure is the externalisation of environmental and social costs from prices of primary materials and products, which lowers the cost of linear production relative to circular alternatives. This failure is compounded by siloed rules and uneven enforcement procedures across Member States, distorting competition and creating disincentives for SMEs, preventing them in making resource-efficient choices and adopting circular practices.

As a result, Europe is falling short of its objective to double its circularity rate to 24% by 2030. Between 2010 and 2024, the share of recycled materials in the European economy increased only marginally from 10.7% to 12.2% (Eurostat, 2025). At the same time, the share of secondary materials has declined, falling from 7.2% to 6.9% between 2018 and 2023 (Circularity Gap Report, 2025). Virgin materials therefore remain the default input, accounting for roughly 87% of total material demand in Europe (OECD, 2025). Europe's resource consumption remains high. In 2022, the total weight of products consumed in Europe amounted to just under 5 gigatonnes, of which approximately 35%, around 1.76 gigatonne, became waste (EEA, 2024).

Slow progress towards circularity targets reflects a nexus of structural disincentives rather than a lack of socio-economic potential. Both the Clean Industrial Deal and the Draghi Report highlight significant socio-economic opportunities associated with accelerating Europe's circular economy. Reuse, repair and recycling are labour-intensive and locally grounded activities, offering strong employment and value-creation opportunities for SMEs and social enterprises. In 2021, these sectors employed 4.3 million people, accounting for around 2.1% of total employment in Europe (EEA, 2021). Looking ahead, the OECD estimates that they could generate up to 2.5 million additional jobs by 2030 (OECD, 2025). According to The European Environment Agency, the circular economy could deliver a reduction in greenhouse gas (GHG) emissions of 33% (EEA, 2026).

Against this backdrop, promoting SME-focused policies is essential to ensure that circular value chains translate into quality jobs and that smaller enterprises fully reap the benefits of the transition. The CEA should explicitly recognise the added value generated by circular activities such as job creation, social inclusion, preservation of artisanal skills, and integration of people far from the labour market. These social and economic contributions should translate into clear and measurable social objectives.

The effectiveness of the CEA also hinges on achieving legislative coherence across European legislation governing product life cycles from design to consumption to waste management chains. Coherence requires consistent implementation guidelines, a clear legal status of secondary materials, streamlined digitised procedures, and mutual recognition where appropriate. It also demands realistic timelines and objectives that are compatible with national circular economy roadmaps or strategies. This approach would reduce legal uncertainty and ensure coherence across horizontal and sectoral legislation including the Waste Framework Directive (WFD) (2025/1892), the Ecodesign for Sustainable Products Regulation (ESPR) (2024/1781), the Packaging and Packaging Waste Regulation (PPWR) (2025/40), the Right to Repair Directive (2022/2515(RSP)), Critical Raw Material Act (2024/1252), Waste Shipment Regulation (2024/1157), Landfilling Directive (2018/850), Batteries Regulation (2023/1542), End-of-Life Vehicles Directive (2000/53), and the Waste of Electrical and Electronic Equipment Directive (WEEE) (2012/19). The CEA should also accelerate the implementation of complementary initiatives such as the Bioeconomy Strategy and the RESourceEU Action Plan, so that measures on secondary raw materials and biomass become mutually reinforcing.

Beyond regulatory coherence, SMEs require targeted support measures to overcome market failures undermining the transition to circular business models. These setbacks include under-investment and skills shortages for circular practices, the absence of a fully integrated Single Market for secondary raw materials, limited uptake of circular material and product design, low price of fossil-based primary materials, and the growing influx of cheaper secondary materials imported into Europe.

Addressing these barriers through the CEA will be decisive to make circularity activities the prevailing norm while preserving a level playing field for SMEs. This, in part, requires stronger monitoring of systemic barriers to circularity uptake. In particular, the European Environment Agency's Circular Metrics Lab and Eurostat's Circular Economy Monitoring Framework should expend the availability of granular data, broken down by sector and company size, to support evidence-based policymaking.

Moreover, the CEA should deliver a coherent package of SME-focused support measures guided by the 'Think Small First' principle to avoid inducing unnecessary administrative burdens on SMEs and by subjecting any additional binding requirements to a mandatory SME test prior to adoption.

Building on this principle, the paper sets out how SME-friendly support measures should translate across circularity measures to enable a genuine Single Market for secondary raw materials. It calls for harmonised, ambitious and predictable Extended Producer Responsibility (EPR) frameworks, clear and unified end-of-waste criteria, and improved by-product recognition to ensure legal certainty and unlock secondary material markets. It also calls for a shift away from landfilling and incineration, which lock-in material losses and disincentivise resource-efficient production and reuse.

It further explores how targeted fiscal incentives can address the finance gap faced by SMEs when scaling circular activities. This includes rebalancing taxation, pushing out fossil fuel subsidies and encouraging the uptake of circularity criteria in public procurement contracts. These measures should be complemented by comprehensive and accessible advisory support, notably Circularity Hubs that can offer technical guidance, circularity vouchers and peer-learning opportunities to scale circular business models and foster industrial symbiosis.

More broadly, placing the circular economy at the core of European economic policy is a strategic autonomy imperative in a context of resource scarcity and heightened geopolitical tensions. By strengthening waste prevention, ecodesign, repair, reuse, and high-quality recycling, the European Union can keep resources in circulation on its territory for longer, reduce its dependence on imports of critical raw materials, and secure essential inputs for its industrial value chains. Initiatives such as the Circular Economy Action Plan and the Critical Raw Materials Act illustrate this approach. The latter requires that by 2030, 25% of Europe's annual

consumption of critical raw materials be met through recycling. By anchoring resource efficiency at its core, the CEA should also deliver on the objectives of the European Economic Security Strategy.

Workable Extended Producer Responsibility Schemes

State of play of EPR systems

The Extended Producer Responsibility (EPR) system is a pivotal instrument of European waste policy ever since the adoption of the Packaging and Packaging Waste Directive (94/62/EC). It sets obligations for take-bake, collection and recycling. The EPR policy pursues a two-fold objective: first, to ensure efficient end-of-life collection, management and treatment by assigning financial and sometimes operational responsibility to producers; and second, to create incentives for manufacturers to design for durability, repairability, recyclability and support reuse. By internalising waste management costs, EPR schemes aim to align environmental outcomes with market incentives.

Over time, this principle has expanded well beyond packaging. The revised Waste Framework Directive (2025/1892/EC) mandates Member States to introduce EPR schemes for textiles and footwear by April 2028, under Article 8a. In parallel, EPR schemes also target other waste streams governed by the Waste Electrical and Electronic Equipment Directive (2012/19/EC), Batteries Regulation (2023/1542/EC), End-of-Life Vehicles Directive (ELV) (2000/53/EC), and Urban Waste Water Treatment Directive (2024/3019/EC).

To date, the practical design and operation of EPR schemes has largely been determined and implemented via domestic law. As a result, EPR schemes differ significantly across Member States in their governance models, scope of obligations, fee structures, and approaches to cost allocation. France, for example, introduced its first EPR scheme for household waste in 1992 and has since progressively expanded producer responsibility across myriad product groups, with 19 distinct EPR streams in operation today (ADEME, 2025).

Likewise for the EPR management, some Member States rely on a single dominant Producer Responsibility Organisation (PRO) within a given waste stream as in the case of household packaging in Belgium, whereas Germany allows multiple PROs to operate and compete in parallel for packaging EPR. This heterogeneity disproportionately impacts SMEs operating across different jurisdictions, which face higher relative compliance costs and limited administrative capacity.

Delivering targeted harmonisation of EPR schemes

In practice, producers operating within a single Member State face significant time, cost and resource constraints in understanding and complying with the breadth of EPR obligations. These include repeated registrations for each country and product stream, divergent methodologies for calculating EPR fees, multiple reporting formats, varying levels of data

granularity, and non-aligned reporting deadlines across product categories. As EPR schemes are extended to new product groups, these burdens risk being further exacerbated for SMEs selling multiple product across borders, since they have less time, resources and financial capacity to adhere to requirements.

Another challenge arises from insufficient coordination between European and national EPR frameworks generating greater legal uncertainty. In France, the European packaging legislation requires producers to provide information on material composition to support sorting, while the 2021 AGEC law mandates the Triman logo to indicate the existence of sorting instructions without specifying material composition. This results in duplicative labelling obligations rather than a single and coherent information requirement. What is more, inconsistent national EPR design for end-of-life vehicle have also led to duplicative reporting and cost allocation practices across Member States.

As EPR obligations continue to expand unevenly across the Union, the CEA must articulate a pragmatic and targeted harmonisation of key parameters that respects the waste hierarchy and ensures administrative burden reduction on SMEs fulfilling EPR requirements. A digitised European EPR platform should therefore be easy to use and provide clear information on producer obligations based on compulsory common definitions (e.g. end of life, textile waste, placed on the market, producer, etc.) applied consistently across Member States. Reporting for producers should rely on standardised templates in line with the “Once Only” principle, covering quantities placed on the market, material composition and relevant circularity attributes. Data submitted by producers should be reusable by PROs and national authorities.

At the same time, harmonisation must retain a degree of flexibility since national systems in several Member States are already well established and functioning effectively, contributing to waste collection and recovery targets. Decisions related to the governance of coordination systems such as participation in PROs and the designation of competent authorities should remain a national competence. This should be ensured while always guaranteeing the involvement of micro and SMEs, as well as all relevant actors along the entire value chain, from intermediate goods producers to end-of-life operators in order to reflect local market structures and waste management systems.

Align EPR with the Waste Hierarchy through proportionate eco-contributions

By integrating prevention, reuse and repair objectives into targets, eco-modulated fee structures and performance indicators, EPR systems can create tangible economic signals that reward durable, repairable and resource-efficient product design. To be effective and credible, any European-level reuse or repair targets should be sector-specific, based on robust impact assessments, proportionate to technical constraints and market capacity.

In practice, two main approaches are used to calculate eco-modulated fees. One consists of differentiating producer fee based on a more granular allocation of end-of-life management costs by product or material, reflecting the cost of collection, sorting and recycling activities. The other relies on bonus-malus mechanisms whereby fees are adjusted to reward or penalise measurable design choices such as recyclability and reusability. To avoid distortions, eco-modulation should be defined on a case-by-case basis by product or product family, rather than solely by material type, so that fee differentiation reflects the design, durability and reuse characteristics of products.

While existing European legislation, including the WFD and the WEEE Directive, allows fees to be modulated based on environmental impact and product lifespan, implementation remains inconsistent and predominantly tonnage-based. This approach undervalues lighter, high-value products with strong reuse potential and fails to effectively incentivise reusability, repairability, and high quality recycling. For example, in the French textile sector, average EPR fees of around €0.0168 per item (OECD, 2024) are far too low to support reuse or repair networks. To correct these price signals, the CEA should require Member States and PROs to apply mandatory and consistent minimum eco-modulation criteria. Eco-contributions should reflect transparent net-cost calculations, with clear separation of collection, sorting, treatment, recycling, reuse and repair costs.

A defined share of eco-contributions should be transparently earmarked to finance waste prevention, reuse and repair, rather than being almost exclusively used to cover recycling costs. Producer organisations must ensure that EPR funds are strictly used to maximise circular outcomes and are not diverted to unrelated public spending. This would support the scaling of circular services and infrastructure, including SME-led repair, refurbishment, and reuse networks.

At the same time, eco-modulated fees must remain workable and proportionate for small producers. To achieve this, PROs should apply SME-friendly implementation safeguards. This implies the gradual introduction of new or revised modulation criteria and transparent publication of fee schedules communicated well in advance to allow SMEs to adapt their product design and pricing strategies.

Where appropriate, temporary caps or flexibility mechanisms on the malus penalties should be applied. This will enable SMEs to showcase progress towards compliance with the circularity criteria without being immediately exposed to full malus fees, which risk discouraging participation rather than improving resource efficiency. Additionally, temporary compliance pathways such as corrective plans can grant SMEs more flexibility where product redesign requires longer development cycles, provided that progress is credible and measurable.

These measures should be accompanied with simplified and purpose-driven reporting requirements. Reporting should rely on easy-to-use templates and allow default coefficients by product category and standard values where data is missing. This approach should apply

across key reporting stages: when placing a product on the market via EPR declarations, when modulation criteria are changed, and where relevant when SMEs report progress under temporary compliance pathways.

To avoid duplication, the Digital Product Passport (DPP) will become a decisive tool that should serve as a single, standardised sourced of accurate product information including material composition, recycled content, durability and repairability parameters. In the long term, the DPP should be a reusable source of product data for PROs. It should operate on a strict 'need-to-know' basis and should be developed in close consultation with the business community.

Safeguarding fair competition for producer organisations

PROs can foster fair competition in waste management markets, insofar as they operate within a clear, stable, and enforceable regulatory framework. In practice, PROs must always include end-of-life operators in order to ensure fair competition, manage complex functions ranging from fee allocation and collection, to contracting and financing waste operators, coordinating data reporting, monitoring performance targets and implementing eco-modulated fee structure. These tasks require regulatory certainty and adequate preparation time. When accreditation decisions, fee structures, or reporting requirements are unclear and delayed, PROs need to adjust systems at short notice, creating administrative and legal uncertainty as well as delays that cascade down to SME producers.

The packaging sector in France exemplifies this risk. Accreditation applications for the Household Packaging and Graphic Paper EPR schemes for the 2024 compliance year were examined in late December 2023, leaving little room before obligations entered into force on 1 January 2024. These compressed timelines hindered PROs' ability to finalise eco-modulation fee schedules and guidance. These delays trickle down to SME producers, who were left with insufficient time to anticipate data requirements, adjust pricing, and manage resulting compliance costs.

The CEA should therefore establish a common European framework for PROs, including thresholds for minimum accreditation periods with predictable renewal procedures and binding timelines for the publication of fee schedules and new eco-modulation criteria. In parallel, reporting requirements should be streamlined at the European level, notably via harmonised annual declarations covering product quantities, material composition, recyclability, and reuse, in order to reduce administrative burden for producers and ensure efficient fee collection. Finally, the role, responsibilities and decision-making powers of stakeholders operating within PRO systems must be clearly defined, and transparently mapped and allocated.

Strengthening the governance of EPR systems

Insufficient monitoring and enforcement measures can place compliant and locally established SMEs at a competitive disadvantage. Effective EPR enforcement is therefore essential to safeguard fair competition and to address non-compliant practices, notably by online sellers

operating outside Europe, who can easily evade producer responsibility obligations. Strengthening transparency and traceability across EPR systems is therefore a prerequisite to tackling such risks.

To this end, mandatory and integrated public registries linking producers, distributors, customs authorities, and e-commerce platforms should be developed. These registries should be complemented by regular monitoring and the use of key performance indicators covering collection, recycling, reuse, and eco-contributions. Digital tools should support independent third-party verification bodies in examining producer compliance with eco-modulation criteria and eco-contributions.

To ensure that EPR systems deliver on environmental and social outcomes, local SMEs, social enterprises and municipalities must be actively involved in EPR governance and decision-making processes to ensure that the systems works for the diversity of economic operators. The inclusion of recycling and reuse operators within the governance structure would also enable more coherent representation of the entire waste management value chain and support better-informed decisions. A balanced board of producer responsibility representatives, transparent decision-making procedures and independent oversight mechanisms would ensure fairness and system performance. A European operational guidance on PRO governance should draw on these premises and must be reflected in both independent and multiple competitive PRO models.

Harmonised end-of-waste criteria and by-product recognition

To develop a market for secondary raw materials, the CEA should prioritise harmonising the End-of-Waste (EoW) criteria for key material streams, while providing clearer guidance and mutual recognition for by-product status. This dual approach would remove regulatory barriers to cross-border reuse and recycling activities without undermining well-functioning national systems.

Fragmented end-of-waste criteria and by-product recognition

Article 6 of the WFD underscores the conditions under which recovered materials may cease to be classified as waste and may obtain the EoW status. In particular, a substance or object resulting from a recovery operation may be considered as non-waste, provided that the following conditions are met: the material is intended for specific use; a market or demand exists for such material; it meets with relevant technical, product and environmental standards; and its use will not lead to overall adverse environmental or health impacts. Where recovered materials are unable to obtain EoW status, they remain legally classified as waste and therefore continue to fall under waste shipment controls and permitting obligations. This significantly increases regulatory costs and commercial risk for operators.

Additionally, divergent interpretations of Article 6 across national jurisdictions in particular regarding the threshold for 'market demand' and 'no overall adverse impacts' result in legal uncertainty and unequal treatment of identical materials. This fragmentation undermines investment certainty, distorts the internal market for secondary raw materials, and acts as a structural barrier to the scaling of circular business models.

In Italy, for example, certain materials such as secondary solid fuels, milled asphalt and inert construction and demolition waste are recognised as EoW, meaning they are no longer considered waste and can be reused as secondary raw materials. However, this status is not consistently recognised in other Member States. Thus, once borders are crossed, these materials are reclassified as waste, triggering additional permits, controls, and higher transport and compliance costs. Small operators cannot absorb these costs, jeopardising their competitiveness.

Moreover, Article 5 of the WFD provides that a substance or object resulting from a production process may be considered a by-product rather than waste. By-product status is not self-determined by economic operators, it must be demonstrated and is subject to verification and acceptance by competent authorities. Although European law defines the general conditions for by-product status, its interpretation is applied on a case-by-case basis by national and regional authorities. This decentralised approach leads to inconsistencies which in turn weaken investment predictability and impede the development of cross-border circular value chains, particularly where by-product status is contested or reclassified as waste.

Establishing harmonised end-of-waste criteria

If circulating recoverable resources within Europe remains more complex and costly than importing virgin materials, Europe will struggle to align its circular economy objectives with economic viability. This imbalance is primarily driven by the fragmented and non-transferable application of EoW criteria, which are predominantly defined and applied at national level. As a result, secondary materials do not fully escape the waste regime when crossing borders, undermining their market viability vis-à-vis virgin inputs.

In this context, a targeted harmonisation of EoW criteria is a necessary step forward. Such harmonisation should in a first instance focus on sectors characterised by demonstrably significant cross-border material flows. To this end, a tiered framework adopted via secondary legislation under the WFD should be established. At the first tier, for key materials that move significantly across borders, a common minimum EoW criteria should be set based on material quality, safety, and environmental performance. If materials meet the criteria, they must be fact-tracked and SMEs should be allowed to place such materials on the market without needing to submit additional EoW national authorisations. At the second tier, well-functioning national EoW regimes should remain permissible, provided they meet or exceed European minimum standards. In such cases, mutual recognition should operate as the default rule. At the third tier, for low-risk materials, operators could rely on certification or simple declarations

instead of prior authorisation and case-by-case assessments. Once declared compliant, EoW status should apply automatically across the Union.

To inform the targeted harmonisation, the CEA should mandate a systematic mapping of material streams characterised by significant cross-border trade, the maturity of applicable quality standards, and inconsistencies in the application of EoW practices across Member States and sectors. This mapping should allow for evidence-based policymaking in consultation with SME organisations, SMEs and micro-enterprises.

The CEA should further provide a set of enabling measures as regards classifications and procedures. First, greater clarity is needed in waste classification under the European Waste Catalogue (Decision 2000/532/EC), particularly regarding the design of nomenclature codes used for quantifying products placed on the market and their alignment with EPR categories, notably under the WEEE framework. Overly generic codes overlook differences in product design, lifespan, and reuse potential, weakening data quality, eco-modulation incentives, and more generally support for reuse activities.

Ultimately, waste destined for recycling should be recognised as recoverable resource in practice, and should be implemented and enforced accordingly. This implies that the valorisation, cross-border circulation and timely access to recycling and recovery markets must be prioritised under the WFD. Consequently, waste destined for recycling should explicitly and consistently include secondary biomass streams, such as agricultural residues, forestry by-products, and organic waste, in line with the European Bioeconomy Strategy.

Reinforcing by-product status recognition

Moreover, the CEA should support the development of an Europe-wide operational guidance on Article 5 of the WFD, to address inconsistent interpretation and application of by-product status across Member States. The practical guidance must clarify and operationalise the scope and compliance requirements of the four by-product conditions: certainty of further use; absence of processing beyond normal industrial practice; lawful use; and environmental and health protection. The guidance must take a risk-based approach and grant default recognition of by-product status for well-established and low-risk material. It should be complemented by sector-specific examples such as for construction residues, industrial by-streams and biomass sectors that clarify the information that operators are expected to submit to competent authorities and how by-product conditions are met on ground.

The mutual recognition of by-product determinations should be actively promoted. Where a competent authority has recognised a material as a by-product based on equivalent conditions outlined in Article 5 of the WFD, that decision should be recognised uniformly across Member States. This would reduce duplication and support cross-border value chains. In addition, existing national by-product practices that function effectively should be mapped and disseminated as reference cases in order to raise administrative consistency without constraining national flexibility.

Introducing SME-friendly procedural safeguards

Introducing procedures tailored to SME capacity would facilitate compliance and participation in circular value chains. To this end, the CEA should support the development of a centralised digital platform providing standardised assessment templates, simplified documentation for low-risk streams, digital submission and verification tools, and clear response deadlines from authorities. The platform should integrate digital traceability tools connecting producers, reusers, recyclers, and end-users and apply a risk-based approach, including simplified checks for low-risk streams and SME-friendly self-declarations.

Landfilling and incineration reduction measures

Phasing out landfilling and strictly limiting incineration must be a priority in the CEA, ensuring that disposal is reserved exclusively for non-recoverable residues. The European legal framework already establishes binding quantitative and qualitative reduction targets under the Landfill Directive, which mandates a binding 10% landfill cap for municipal waste by 2035. The CEA should strive to better implement and enforce existing obligations across Member States such as the progressive reduction of landfilling, mandatory waste treatment before landfilling and separate collection obligations upstream.

Europe has made progress in reducing landfilling of municipal waste, falling from 23% to 17% between 2010 and 2022 (EEA, 2025). Nonetheless, large volumes of recyclable and reusable materials continue to be disposed of, reflecting persistent gaps in separate collection, sorting quality, and treatment capacity. In 2022, out of the 137 million tonnes sent to landfill, 52 million tonnes were municipal waste (largely household and similar waste) (EEA, 2025). Many by-products materials end up in landfill or incineration, in part because the regulations governing their management, as well as independent audits by producers are complex, unevenly applied and economically burdensome to implement. This makes recovery economically and operationally less attractive. At the same time, Europe continues to accept imported materials that, in most cases, do not meet the same standards.

Delivering high-quality sorting of waste

To address this, the CEA should provide measures that enhance the design and performance of separate collection systems for both municipal and industrial waste. This should be supported by clear guidance on effective sorting practices and public awareness campaigns to boost participation and compliance. Member States must ensure that recyclable materials are extracted from mixed waste streams before disposal.

In parallel, companies should be encouraged and supported to form facilitated agreements with treatment plants to manage even smaller waste streams. Fiscal incentives linked to measurable performance indicators could further reward efforts and progress in waste prevention and material recovery. Evidence shows that pay-as-you-throw schemes can reduce municipal

waste by 14% to 10% (EEA, 2025) and should be further scaled. Finally, waste management systems including treatment plants should be modernised to be aligned with the waste hierarchy, favouring local high-quality reuse, repair, recycling over disposal and waste export dependences to non-European countries with weaker environmental standards.

Preventing incineration lock-ins

A planned reduction of landfilling must be accompanied by strict limits on incineration capacity. Without such limits, incineration assets risk creating structural overcapacity that divert recyclable materials away from higher-value uses. Well-designed landfill and incineration taxes can help redirect materials toward local recycling pathways, provided they are combined with mandatory pre-sorting of mixed commercial waste to ensure recoverable fractions are systematically extracted before incineration. More broadly, reducing reliance on landfilling and incineration also requires lowering waste generation from the upstream. As such, promoting well-designed EPR schemes and ecodesign requirements can extend product lifetimes, improve repairability and reuse.

Realigning waste treatment capacity with waste prevention, recycling targets and the availability of local waste infrastructures would enable a shift towards local circular waste management pathways. When waste treatment capacity is disconnected from local waste generation and treatment capacity, economic and contractual lock-ins emerge. When treatment capacity does not match local waste generation, waste has to be transported over long distances to keep facilities operating, increasing costs and emissions. This has been observed in Germany where excavated soil and residual waste are transported up to 200km to fulfil available treatment or disposal capacity. At the same time, incineration and treatment facilities require very high upfront investments, whereby operators often seek to recover their costs through very long-term contracts with municipalities, lasting 20 to 50 years. These contracts usually include minimum waste delivery obligations or compensation payments if waste volumes fall short, which increases system costs and locks public authorities into maintaining waste generation over decades.

To address these challenges, targeted measures should make available and promote local and modular treatment capacity, replace rigid long-term contracts with shorter and more adaptable contractual arrangements, and deploy facilitated access frameworks that enable SMEs valorise smaller and high-quality waste management streams.

Economic incentives for circularity

Leveraging proportionate circularity criteria in public procurement

Green public procurement can play a decisive role in boosting demand for circular products and services. Public procurement accounts for around 14% of Europe’s gross domestic product,

prescribing public authorities significant leverage to stimulate markets for reuse, recycled content, repairable products, and other circular services.

Applying circular targets in public procurement such as design for reuse and disassembly, repair services, an minimum recycled content can provide stable, long-term offtake for SMEs that reduces investment risk in circular technologies and infrastructure. Contracting authorities must be required to provide standardised tender templates incorporating optional circularity criteria, as well as measures that guarantee sustainability criteria are systematically considered into procurement procedures, insofar as these criteria are connected to the performance and characteristics of the contracted goods, services and works covered by the contract.

However, circular public procurement should not unintentionally exclude other SMEs in participating in procurement practices. Many SMEs already face barriers to access public procurement due to administrative complexity and documentation requirements. Overly complex or poorly designed circularity criteria may risk reinforcing these barriers and favouring larger operators with greater compliance capacity.

For public procurement practices to be effective, requirements must be clear, relevant and proportionate, ensuring a level playing field for all economic operators. Building trust between contracting authorities and suppliers can increase legal certainty. This trust depends on predictable tender conditions, transparent evaluation methodologies, and consistent enforcement, so that both contracting authorities and bidders can rely on circular criteria without exposure to legal incoherences.

Establishing structured and early dialogue between contracting authorities and SMEs will ensure that circularity requirements are operational, verifiable, and legally secure. Well-designed framework conditions should encourage procurement for secondary products as to guarantee their attractiveness and legal safety for both public buyers and supplier, limiting disproportionate compliance and litigation risks.

Stimulating demand for circular products via targeted fiscal incentives

Moreover, price-based incentives can be leveraged to help shape a unified market for secondary materials. The European VAT Directive (2006/112/EC) allows Member States to apply reduced VAT rates to repair services, second-hand goods and in some cases to waste treatment and recycling services, but does not cover these broader circular categories.

To this end, the CEA should advocate for an update of Annex III of Directive 2006/112/EC to explicitly include the following categories as eligible for reduced VAT rates:

- Eco-design and durable/repairable products
- Repair and maintenance services (textiles, household appliances, IT equipment, bicycles and automotive)
- Reuse and second-hand goods (textiles, furniture and electronics)

- Refurbishment and use of secondary materials (IT, furniture and construction materials)
- Products made from recycled materials (construction, packaging and consumer goods)
- Product-as-a-service models, functional economy (mobility, tools, electronics and furniture)

Extending Annex III would create a harmonised fiscal framework across Member States, reduce price distortions between virgin and secondary materials, and provide strong market signals for circularity. This measure should be accompanied by clear definitions and harmonised criteria to ensure legal certainty and prevent fragmentation.

Given that changes to Annex III require unanimous approval by the Council, creating significant political and legal constraints, the CEA should further explore and propose interim national measures such as tax credits or deductions to support circular investment.

Facilitating SME access to European funding

European financing frameworks should apply the Do No Significant Harm (DNSH) principle in a consistent and predictable manner, in line with the European sustainable finance architecture and the European Taxonomy. However, for many SMEs, fragmented interpretations and burdensome documentation requirements currently deter participation. Funding allocation should thus rely on a standardised DNSH screening, with proportional requirements reflecting the scale and risk profile of projects. For low-risk circular activities, such as repair, reuse, and refurbishment, simplified DNSH assessments should be systematically applied. In a similar vein, better leveraging the Platform on Sustainable Finance: streamlining sustainable finance for SME would provide SMEs with streamlined enablers to access green and circular finance without navigating multiple, overlapping application procedures.

Many circular solutions depend on the availability of enabling infrastructure such as selective collection systems, high-performance sorting, reverse logistics, refurbishment facilities, and reuse hubs which are often expensive and perceived as risky by private investors. European-level guarantees and blended-finance instruments, notably those implemented via the European Investment Bank and InvestEU, are therefore essential to de-risk these investments. Priority access and tailored conditions for SMEs would ensure that smaller actors can participate in and benefit from such financing.

Circularity Hubs: SME support measures

The CEA must combine effective policy measures with supportive framework conditions that enable and support SMEs in developing circular business models. The idea of establishing Trans-Regional Circularity Hubs which focus solely on improving recycling infrastructure falls short of reaching the CEA's core objectives. It also risks overlooking the reel gaps faced by SMEs, which require competence and knowledge centres dedicated to support them in scaling circular activities.

Circularity Hubs should therefore be established as strategic coordination centres that connect industries, regions, and innovation ecosystems to accelerate the transition toward a circular economy based on proximity and public interest criteria. The core mission should focus on supporting businesses, in particular SMEs, that often lack internal capacity or expertise to scale circular business models. Hubs should operate as one-stop shops providing integrated technical, financial and regulatory support across the entire value chain, from product design to end-of-life management. These support services could include:

- easy access to circular innovation labs, knowledge and data platforms including digital product passport interfaces and standardised life-cycle assessment tools;
- guidance on regulatory compliance in particular with new Ecodesign requirements, EPR systems, harmonised end-of-waste criteria and improved by-product recognition;
- mentoring, modular training and guidance material on sustainability management, life-cycle assessment, and certification delivered through accredited curricula tailored to micro and small enterprises;
- workers' reskilling and upskilling initiatives with links to national qualification frameworks and European skills programmes;
- accessible small-scale funding (e.g. through circularity vouchers, complemented by fast-track access to European, regional and national funding streams);
- industrial symbiosis for circular supply chains (e.g. through mapping and matchmaking services) based on real-time material flow data.

Hubs should also support market creation by assisting SMEs in meeting circular procurement criteria, fostering demand for secondary materials, and facilitating long-term off-take agreements that provide investment certainty.

By providing such services, Circularity Hubs can help smaller companies implement circular business models more efficiently, better access secondary raw materials, and effectively participate in collaborative initiatives that would otherwise be difficult to manage individually. They should additionally monitor progress through measurable indicators, such as reuse and repair rates, secondary material uptake, and carbon dioxide emission reductions in order to strengthen accountability and enabling targeted improvements.

In addition, these Hubs should play a central role in developing and coordinating communication and public awareness campaigns that reinforce the societal and economic relevance of circularity. This could include targeted outreach to consumers, SMEs and local authorities through the dissemination of practical guidance on reuse, repair and resource efficiency, and the promotion of successful circular business cases.

These Hubs should be set up via public-private partnerships and operate under a multi-stakeholder governance model, with boards composed of representatives from public authorities, key industrial sectors, SME employer associations, and other relevant stakeholders. Already existing well-established support structures should be recognised as Circularity Hubs,

thereby enhancing the accessibility and efficiency of these services. At the national level, the following hubs are examples of good practice:

- Nederland Circulair (the Netherlands)
- Circular Flanders (Belgium, Flanders region)
- CircularMADE and circular. Brussels (Belgium, Brussels)
- House of Sustainability (Luxemburg),
- Prato Textile Hub (Italy),
- Effizienz-Agentur NRW (Germany, North Rhine-Westphalia region)
- Zero Waste Scotland
- Basque Circular Hub (Spain)
- Catalunya Circular (Spain)
- Circular Slovakia (SBA)

Beyond Circularity Hubs, the CEA should also map and promote existing cross-border and transnational cooperation initiatives supported under Interreg programmes. These programmes play a decisive role in mitigating regulatory fragmentation. Examples include Interreg initiatives in the North Rhine-Westphalia region, connecting Germany and the Netherland, as well as the WE.Circular project under the Danube Region Programme. These initiatives demonstrate how coordinated regional approaches can support SME participation in scaling circular practices beyond national borders.

Sectoral considerations

Improving circularity of Waste electrical and electronic equipment

The CEA should place waste electrical and electronic equipment (WEEE) as a priority waste stream. WEEE is one of the fastest-growing waste streams in Europe and contains significant amounts of critical raw materials necessary for the green transition. As both an environmental and industrial policy imperative, the CEA should address every stage of the lifecycle of electrical and electronic equipment through design for material efficiency, extended product lifetime and end-of-life recovery.

The prescribed collection rates for WEEE are not being met, despite existing legal obligations. Member States are required to collect 65% of the average weight of WEEE placed on the market (or 85% of WEEE generated). Yet, according to European Environment Agency (2025) and Eurostat, actual collection rates in Europe remain significantly lower, averaging around 40% to 45% in 2022. In addition, the Critical Raw Materials Act establishes a target requiring at least 15% of Europe's annual consumption of strategic raw materials be sourced from recycling. However, currently recycling rates for critical raw materials are below 1% (EEA, 2025). These implementation gaps result in large quantities of WEEE being improperly

disposed of, exported, or lost in residual waste streams, leading to the loss of critical raw materials and increased environmental and health risks.

Closing this gap requires efforts to scale infrastructure for WEEE waste recovery and design for end-of-life. The CEA must aim to promote better product design. In this respect, strengthened ecodesign requirements should ensure that new products are durable, repairable and recyclable, and that they incorporate higher shares of recycled and recyclable materials, in particular critical raw materials. The effective operationalisation of the right to repair is crucial. This entails guaranteed access to spare parts, repair information for repairers, as well as the prevention of hardware and software practices that limit independent repair, such as non-replaceable batteries or software-based performance restrictions.

The CEA should also strive to improve collection and treatment of WEEE by introducing minimum Europe-wide requirements for separate collection, sorting and treatment of WEEE. These requirements should be supported by clear implementation guidelines, accessibility and realistic timelines for SMEs. Products and waste shipped within Europe for purposes of reuse or recycling should be subject to a robust monitoring and traceability mechanism to prevent waste mismanagement and dumping.

At the same time, stronger monitoring and control checks should be enforced to curb illegal shipments of WEEE and guarantee that all end of life treatment meet European standards. To ensure a level playing field, products sold directly to European consumers from non-European platforms must abide by the same requirements, market controls and producer responsibility obligations as products that are made in Europe.

To enhance the recovery of secondary materials, the Act should encourage investment in modernised high-quality recycling infrastructure and technologies. This must be complemented by harmonised end-of-waste criteria and Europe-wide quality and traceability standards that increase confidence in secondary raw materials including recovered critical materials.

Collection systems must remain accessible for both suppliers and consumers. The design of the return function of collection infrastructure must be improved to increase the willingness of consumers to actively participate.

Strengthening consumer awareness is equally important. Robust information and labelling requirements can enable informed decisions on product durability, repairability and end-of-life management. Clear and harmonised labels should indicate how and where products can be repaired, reused or returned at disposal. Accessible and consistent information provided at the point of purchase and throughout the product lifecycle can significantly increase take-back rates and reduce improper disposal.

Finally, targeted awareness campaigns, developed in partnership with local authorities, PROs, SME organisations and repair or reuse operators, should emphasise both the environmental benefits and economic value of returning WEEE, including the recovery of critical raw materials.

By making proper disposal the easiest and most attractive option for both businesses and end-users, the CEA should provide decisive levers for resource-efficient WEEE life cycle management.

For further information on this position paper, please contact:

Catherine Fragnay

Junior Policy Advisor Climate, Energy and Environment Policy

c.fragnay@smeunited.eu

SMEunited is the association of crafts and SMEs in Europe with around 65 member organisations from over 30 European countries. SMEunited is a recognised cross-sectoral European Social Partner. We speak on behalf of the 26.1 million SMEs in Europe which employ around 89 million people.