

# **ARA SUBMISSION**

## **OPPORTUNITIES IN THE CIRCULAR ECONOMY**

NOVEMBER 2024

### **EXECUTIVE SUMMARY**

The Australian Retailers Association (ARA) welcomes the opportunity to contribute to the Productivity Commission's consultation on opportunities in the circular economy.

The ARA is the oldest, largest, and most diverse national retail body, representing a \$430 billion sector that employs 1.4 million Australians – making retail the largest private sector employer in the country. As Australia's peak retail body, representing more than 120,000 retail shop fronts and online stores, the ARA informs, advocates educates, protects, and unifies our independent, national, and international retail community.

We represent the full spectrum of Australian retail, from our largest national and international retailers to our small and medium-sized members, who make up 95% of our membership. Our members operate across the country and in all categories - from food to fashion, hairdressing to hardware, and everything in between.

The retail industry has committed to transitioning to a decarbonised, circular and nature positive future, recognising the opportunities that a circular economy can unlock and also challenges to overcome. This approach includes designing out waste and pollution throughout the supply chain and operations, keeping products and materials in use for longer, including through design, manufacturing, use and recovery of products and materials, and regenerating nature in the process. In addition, the retail sector serves all Australian's and is a vital part of local communities, and as such is uniquely positioned to support large scale behavioural change and positive outcomes. By adopting circular economy principles, the industry aims to reduce environmental impacts, and unlock new opportunities for value creation that a circular economy provides.

The ARA supports the Australian Government's efforts to transition to a circular economy, however, recognises that while individual retailers are making progress, no business alone can achieve the systemic change needed in the timeframe required. Additionally, a circular economy is much broader than focusing on recycling, which is consider a lower outcome on the waste hierarchy. Any review into circular economy opportunities should ensure that there is a greater focus on other opportunities in the hierarchy, including repair and refurbishment. The ARA has outlined a set of recommendations that will help accelerate progress being made within the retail sector, and beyond, including influencing behaviour change at a national scale, and looks forward to continuing to collaborate with Governments to achieve positive social, environmental and financial outcomes.

This submission has been informed by consultation with the ARA's Sustainability Advisory Committee.

## FEEDBACK AND COMMENTS

### 1. Circular economy success stories and measures of success

The following key principles of the circular economy showcases successful retail industry initiatives, and outlines measures for success in driving economic and environmental benefits.

- a) **Design out waste:** To achieve zero-waste goals, the retail industry is pursuing two key approaches. The first approach focuses on zero-waste operations: this includes managing waste generated throughout the supply chain and in the day-to-day running of retail stores. Efforts here involve implementing robust waste management practices, phasing out non-recyclable materials, and designing products with recycling in mind.

The second approach addresses waste through the product lifecycle and end use. Circular economy principles advocate for a shift away from the traditional "take, make, dispose" model. Instead, products are designed to minimise waste by allowing for repair, reuse, or remanufacturing, with materials being used efficiently and cycled back into the system multiple times. This approach, however, requires a collaborative effort, backed by sufficient infrastructure and funding, to support a sustainable system.

For example, Australians dispose of an average of 23 kilograms of clothing per person each year, yet there is no comprehensive system for collecting unwearable textiles. This lack of infrastructure has contributed to textile waste becoming a significant issue within Australia's broader waste challenge.

- b) **Extend product lifecycle:** A key principle of the circular economy is to extend the lifecycle of products through design, repair, product-as-a-service models, and rental options. Retailers have been adopting models that provide services which increase product longevity, including repair initiatives. Rental programs and buyback schemes offered at IKEA have been successful initiatives led by members. These approaches reduce waste, encourage sustainable consumption, and provide customers with more sustainable alternatives to traditional ownership.
- c) **Regenerate nature:** Regenerating nature is a core principle of the circular economy, emphasising the restoration and enhancement of natural ecosystems rather than their depletion. By adopting sustainable sourcing practices, reducing environmental impacts, and promoting biodiversity, the retail industry is central to the regeneration of vital natural resources in Australia. Nature-led initiatives not only aids in ecosystem restoration but also ensures long-term environmental sustainability, fostering a positive cycle that supports and preserves natural systems for future generations.
- d) **Measures of success:** The circular economy offers significant economic opportunities for the retail industry by unlocking value through two key approaches: reducing costs and generating new value streams. By minimising waste, such as reducing waste disposal costs, and investing in infrastructure businesses can achieve substantial savings. Additionally, the circular economy fosters innovation in business models, products, and services, opening new revenue opportunities. Success can be measured by how effectively the industry lowers operational expenses and creates sustainable value through innovative solutions. The outcomes of these efforts are not only economic, driving profitability and efficiency, but also environmental, contributing to a more sustainable and resilient ecosystem and social outcomes through the creation of new jobs.

## 2. Priority opportunities to progress the circular economy

The retail sector presents substantial opportunities for advancing circular practices through policy-supported business model innovation and solutions.

- a) **Commercial opportunity:** The circular economy presents a significant commercial opportunity by unlocking value through new business models, particularly those in the sharing economy. By shifting from traditional ownership to sharing, renting, and leasing models, businesses can tap into new revenue streams, expand markets, and drive demand, while meeting growing consumer demand for sustainable and flexible solutions. This approach not only maximises the utility of products but also reduces waste, creating a more efficient and profitable business model. As these models gain traction, they offer significant collaboration in a market increasingly focused on sustainability and resource efficiency.
- b) **Waste recovery and management:** Effective waste recovery begins with proactively designing products and packaging for easy material recovery at the end of their lifecycle. This includes selecting recyclable or reusable materials and ensuring that systems are in place to manage waste efficiently, including for retail operations, and end-use schemes for items such as packaging and recovery for end-of-life products.

Although waste levies are managed at the state level, a national approach on their alignment could enhance efficiency and lower waste management costs. Levies should be reinvested into the sector.

- c) **Systems-level change:** There must be a transitional shift towards a more circular economy from a linear economy in Australia. is a systems level change. Engaging local suppliers and stakeholders is critical to successfully navigating the transition to a circular economy. Stakeholders such as industry bodies, local government and transition brokers can play a vital role in facilitating this process. The ARA have a significant opportunity to drive and implement systemic change while building capacity across the retail sector. Whilst this requires investment, the ARA believes this would be a more effective deployment of capital to support the transition and could be matched with industry funding. This may involve the current project-based grant approach shifting towards a program-based approach to better support this transition. Drawing on success from other examples, the RTO program deploys funds to approved organisations that are better placed to deliver sectoral outcomes, in this case such as workplace skills and training. We would welcome the opportunity to pilot such a program, as we are confident in our ability to engage the right members and stakeholders to advance the circular economy in Australia while demonstrating positive return on investment.
- d) **Drive demand and create markets:** To accelerate the adoption of the circular economy, it is essential to ensure the appropriate economic and commercial framing is included, as opposed to simply an environmental initiative or cost to the economy. Global businesses have already demonstrated the economic potential of circular models, where strategies like product-as-a-service, repair, and recycling not only reduce waste but also open new revenue streams. For example, companies like Patagonia and IKEA have embraced circular practices, using product repair and buy-back programs to strengthen brand loyalty while generating additional income. By shifting the focus from circularity as an expense to its potential for creating new markets and enhancing profitability, Australian businesses can unlock similar opportunities, driving both demand for sustainable products and long-term financial success.

Government support is key to building markets that prioritise circular products, which helps drive industry confidence in transitioning to circular models. By setting recycled content standards and promoting circular procurement, governments can create stable demand, making circularity a profitable and sustainable part of the economy. A collaborative approach between government and industry can adapt to evolving consumer preferences, creating opportunities to achieve positive financial and environmental outcomes.

- e) **Maintain fairness:** Creating a level playing field must be a key consideration underpinning circular economy policy, regulation, and innovation. This includes ensuring an operating environment that addresses instances of free riders that can inadvertently contribute costs to programs, such as voluntary product stewardship schemes, and limiting the effectiveness in the process. Ensuring all businesses are accountable for their environmental impact would create a fairer playing field, encouraging more retailers to adopt sustainable practices and reducing the advantage of those who continue to benefit through avoidance of environmental standards, including emerging business models such as international manufacturer-to-consumers.
- f) **Investment in technology and innovation:** There is a need to explore innovative methods for transforming waste into valuable input materials. For sustainable, long-term development of this capacity in Australia, it is crucial to focus on industry-driven technologies solutions. The retail industry would benefit from an expansion of the R&D tax incentives to support technologies or business model innovation that promote waste reduction, material recovery, and sustainable product life cycles. Currently, the R&D tax is primarily available to technology companies in Australia, but there is significant potential to adapt this tax incentive to encourage investment in circular economy business models. This would help drive innovation in the retail sector, fostering more sustainable and resource-efficient practices.

### 3. Hurdles and barriers to a circular economy

The key challenges faced by retailers and brands in adopting circular economy practices include financial costs, inconsistent definitions, insufficient infrastructure, consumer behaviour, and limitations in data transparency.

- a) **Costs to retailers and brands:** Adopting circular economy practices can place a significant financial burden on retailers and brands. Key costs include compliance with Extended Producer Responsibility (EPR) schemes, investment in infrastructure, packaging redesigns, and research and development (R&D) for sustainable product innovations. Additionally, retailers may need to adjust their supply chains to accommodate circular practices such as product take-back programs or repairs. These costs can add up, making it expensive for businesses to fully transition to a circular model, particularly when any systemic transition lacks the overarching strategy and capability building to support a holistic transition. To encourage faster and wider adoption, there is a need to reduce the cost burden on businesses, potentially through financial incentives or tax relief, and to streamline the regulatory environment to make circular practices more financially viable for retailers and brands.
- b) **Costs of recycled and alternative materials:** One of the key challenges in transitioning to a circular economy is the higher cost of reconditioned products and recycled materials compared to virgin materials. Recycled goods often lack price competitiveness due to the costs associated with collection, sorting, and processing. Additionally, the quality and consistency of recycled materials can be lower, which may further drive up costs for manufacturers. While the retail industry supports recycling and the phase-out of plastics,

the cost disparity will remain a barrier for many retailers until the supply chain for recycled materials is scaled up and more efficient, and alternative materials are established to be fit-for-purpose.

- c) **Inconsistency of definitions:** A major obstacle in advancing circular economy strategies is the lack of consistent, standardised definitions for key terms, including repairability, recycled content, and product lifespan. Clear distinctions between secondary raw materials and waste are also essential. The absence of globally accepted definitions for fundamental terms, such as remanufactured, refurbished, like-new, repurposed, and used creates regulatory uncertainty that discourages business investments in circular economy initiatives. This ambiguity allows for inconsistent interpretation and application by both government entities and businesses, leading to confusion and inefficiency in the marketplace as businesses struggle to understand compliance standards.

To overcome this barrier, a unified approach to defining circular economy is needed, with coordinated federal and state regulation. Referencing definitions grounded in international best practices and standards is crucial. This would provide businesses with the clarity and consistency necessary to reduce regulatory complexity and support widespread, effective implementation of circular practices across industries.

- d) **Insufficient infrastructure and location of facilities:** Australia's recycling infrastructure is currently insufficient to support a full transition to a circular economy. Existing recycling facilities typically only handle a small range of materials, and the country lacks the necessary infrastructure for efficient collection, sorting, and processing of a wider variety of materials. Additionally, it is even more difficult to find suitable facilities in regional and rural areas. This limitation hampers the effectiveness of circular systems and increases costs for businesses. The collapse of the REDcycle program in late 2022, highlighted how fragile recycling programs can be without adequate support. Significant investments are needed to expand and improve recycling capacity across the country, and the strategic placement of recycling facilities is crucial to ensuring access to these services nationwide. This investment is beyond the scope of industry alone and requires government co-investment to be successful.
- e) **Consumer behaviour:** Consumers play a crucial role in the success of circular economy initiatives. Amid a cost-of-living crisis, many consumers prioritise value and convenience over sustainability. Shifting attitudes toward sustainability requires education, incentives, and simplicity. Retailers and brands acknowledge the responsibility to communicate the environmental impact and promote positive consumer behaviour. A collaborative approach from the government is essential to support behaviour change campaigns that encourage consumers to dispose of products correctly and efficiently. Industry bodies can play a role in this collaborative campaigning.
- f) **Limitations to data:** One of the challenges in promoting circular economy practices is capturing and verifying evidence of recycled content in products. Consumers and regulators increasingly demand transparency regarding the materials used in products, but tracking recycled content throughout the supply chain is complex and often lacks standardisation. Implementing systems for verifying and certifying recycled materials would provide consumers with confidence in the products they purchase and incentivise businesses to use more recycled content. This could be achieved through improved streamlined certification processes or the development of industry-wide standards for tracking recycled materials, helping to ensure that claims of sustainability are backed by measurable evidence.

#### 4. Governments' role in the circular economy

The government has an important role to play in embedding circular economy principles into its existing programs and frameworks. This could include incorporating circularity into procurement policies, where government departments prioritise sustainable products and services that align with circular economy practices. Furthermore, integrating circularity into infrastructure programs, such as waste management and recycling, can provide the necessary support for businesses to adopt circular practices. For example, the government can incentivise investment in recycling infrastructure or provide grants for innovation in sustainable product design. By embedding circular economy principles across various government initiatives, Australia can create a more sustainable and cohesive economy.

- a) **National harmonisation:** The current National Waste Policy lacks a comprehensive assessment of the economic benefits Australia could gain from transitioning to a circular economy, as well as an analysis of the economic, technical, and institutional barriers that may need to be addressed. To effectively drive the transition to a circular economy, it is crucial to implement a National Circular Economy Policy that provides a consistent and unified framework for businesses and governments across Australia. This policy should support the adoption of circular practices across sectors, from manufacturing to retail, and ensure that businesses can easily navigate the regulatory environment. Additionally, alignment between the Commonwealth and state governments is essential to create cohesive policies that avoid fragmentation and inefficiencies.

For example, conducting a national review of state-based waste levies could identify best practices for creating a consistent and effective approach to waste management. State waste levies are crucial in diverting waste from landfills, supporting circular investments, and driving innovation. By optimising levy structures, a stronger business case for circular investments could be established, reducing reliance on landfills, and aligning waste management practices across jurisdictions.

- b) **Legislation and clear frameworks:** There is a pressing need for clear and comprehensive legislation that supports circular economy initiatives. This legislation should establish the legal foundation for implementing circular practices such as waste reduction, product take-back schemes, and resource recovery. A well-defined legal framework will provide businesses with the certainty they need to make long-term investments in circular models, such as redesigning products for durability or using recycled materials. It should also address key challenges like the harmonisation of waste collection standards and regulations.

For example, implementing right-to-repair legislation could make repair options more accessible to consumers, thereby extending product lifecycles and opening up new service opportunities for retailers. This legislation would help grow the repair sector, encourage innovation, and allow retailers to create service models centred around repair, generating commercial value while contributing to environmental sustainability. The retail sector will collaborate closely and should be widely consulted on any such approach, to ensure the desired outcomes are achieved.

- c) **Extended Producer Responsibility (EPR) schemes:** EPR programs are a crucial tool for promoting sustainability by holding the industry accountable for the lifecycle of their products. To maximise their

effectiveness, EPR schemes should be implemented at a national level and harmonised across states and territories. This would ensure consistency, reduce administrative complexity, and drive greater industry participation in sustainable practices. Introducing a government-supported program that provide clear guidance and support for compliance can help businesses navigate these schemes more easily. The government has an opportunity to leverage the *Recycling and Waste Reduction Act 2020* to tackle the free-rider issue and expand this legislation to mandate business participation in EPR schemes. Additionally, the government should implement strong education campaigns to ensure businesses understand new legislation and their responsibilities under EPR schemes. By simplifying the schemes and mandating participation, the government can help eliminate free-riders and ensure that circular economy practices progress effectively.

- d) **Job creation:** The government should actively support job creation in circular industries by offering incentives and funding for businesses that create jobs in recycling, waste management, repair services, and sustainable product design. By investing in training programs and supporting emerging industries within the circular economy, the government can help create a new workforce that is skilled in circular practices. This will not only drive the transition to a circular economy but also stimulate economic growth, reduce unemployment, and ensure that Australia is well-positioned to lead in sustainable industries. Providing targeted support for job creation in circular sectors will help align economic development with environmental goals, fostering a more sustainable and resilient workforce.

## RECOMMENDATIONS

### 1. Invest in infrastructure and systems change

Invest in expanding recycling facilities, improving waste management systems, and enhancing material recovery capabilities to support the transition to a circular economy.

### 2. National harmonisation

A coordinated effort across all levels of government is essential to overcome institutional barriers and establish regulations for a uniformed transition to a circular economy.

### 3. Identify incentives to support fit-for-purpose resource recovery sector

Conduct a review of state-based policies, including aspect such as waste levies, to identify best practice and help inform a consistent national approach, incentivising waste diversion and circular investments.

### 4. Introduce a right-to-repair legislation

Develop right to repair legislation in collaboration with industry to facilitate easier access to repairs, extend product lifecycles, and create new service-based business models.

### 5. Leverage R&D tax incentives

Extend R&D tax incentives beyond technology sector to support businesses innovating in circular business models and sustainable practices.

#### **6. Introduce public information campaigns**

No national behavioural change campaigns currently exist, yet consumer action is essential for proper recycling of packaging - beyond what retailers can achieve through improved design and labelling. Leverage the retail sector's ability of wide-spread consumer and community reach for a coordinated public campaign.

### **CONCLUSION**

Australia stands at a pivotal moment to lead in the circular economy, with the retail industry ready to drive this transition. Embracing circular principles like designing out waste, extending product lifecycles, and regenerating nature allows retailers to meet growing consumer demand for sustainable options while boosting profitability. To capitalise on this, retail needs policy support, clear legislation, and national consistency in waste management and EPR schemes, creating a level playing field and fostering long-term growth. With targeted investment in technology, infrastructure, and innovation, Australia can unlock the full potential of the circular economy, positioning itself as a global leader in sustainable practices and economic resilience.

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Thank you for the opportunity to provide a submission to this inquiry. Any queries regarding this submission can be directed to ARA Sustainability Policy Advisor Sharmi Ahmed