

EOS IM Group Article

Title: Circular Economy – Do you know your ESG Buzz Word Bingo?
Topic: ESG
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Italy4Innovation

Investing in the future through circular economy

12 June 2019

Embassy of Italy, 4 Grosvenor Square, London W1K 4AE



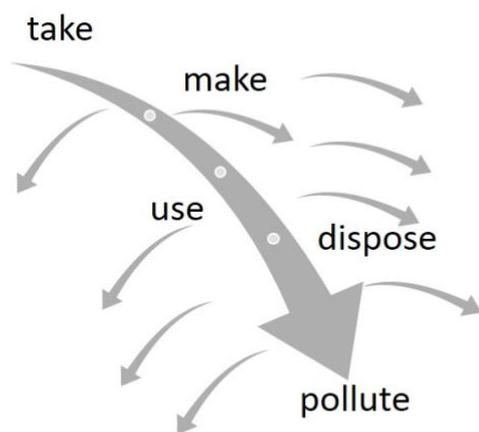
Executive Summary

Putting flippant comments aside, this is one of the strong themes within the environmental approach being taken by many major players and thought leaders. Earlier this week I was invited to participate in a thought provoking and inspiring event concerning the Circular Economy, hosted at the Italian

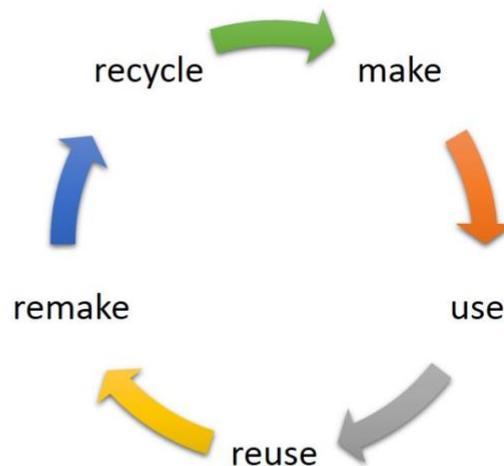
Embassy in London, as part of their Italy4Innovation series. They had drawn together an international Circular Economy Panel which discussed what it is, the mindset, how it provides benefits and how it is the logical way forward for governments, business and consumers in our changing world. This article summarises many of the key points and includes some of my observations on this hot topic.

Hugh McCann from the Ellen MacArthur Foundation set the scene well explaining the concept of a Circular Economy. The normal economy approach for many years has been a Linear Economy. This is where resource is extracted, converted into product, used and then discarded. In other words, it just creates “new”, depleting resource and creating waste product. The Circular Economy brings in the concept of taking that used resource and returning it to the “resource” stage. Hence the term Circular. It works on the basis of three Principles – **(1)** Design out waste and pollution; **(2)** Keep products and materials in use; and **(3)** Regenerate natural systems. This is summarised and set out in the chart below in a simple manner.

Linear Economy



Circular Economy



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Matthew Green who is the Environment Correspondent covering climate change, from Thomson Reuters, chaired the Panel and drove the conversations forward in a very engaging manner, providing an invigorating debate. Matthew led the panel discussions on the need for governments to provide the infrastructure and legislative frameworks to help drive, facilitate and support changes (*as promoted by the UK Government’s representative*). Followed through with the investors and financial sector providing both the strong incentive for action and the funding to enable it to occur. Finally, we as consumers need to be aware of the changing world and do the right thing. Applying Circular Economy principles could unlock up to EUR 1.8 trillion of value for Europe’s economy. Business plays a central role in creating the systemic change required to reap the financial benefits of this transition.

The Panel provided excellent examples of how this is working in practice, right now. For example, Mauro Micillo, the CEO of Banca IMI, explained how the bank have a complete division (with in-house expertise) which is focussed on providing financing to companies active in the Circular

Economy. Overall, Banca IMM SanPaolo has devoted €5bn for the funding of such commercial projects. Linked to key KPI's, the more Circular the financed "projects" are, the lower the financing rates applied by the bank. Followed through with the investors and financial sector providing both the strong incentive for action and the funding to enable it to occur. Finally, we as consumers need to be aware of the changing world and do the right thing. Applying Circular Economy principles could unlock up to EUR 1.8 trillion of value for Europe's economy. Business plays a central role in creating the systemic change required to reap the financial benefits of this transition.

During this anticipated evolutionary change, driven by the environmental impacts

Through these changes there are significant benefits for entrepreneurial initiatives by companies and investors, to grasp the new opportunities. Obvious examples include clean energy, where globally solar powered generation is moving from a subsidy-based economy, to being a highly profitable proposition at the market energy prices (unsubsidised rates). To illustrate this, the UK Government's announcement of its legally binding target of being Net Zero Carbon Emissions by 2050, reinforces the obvious need for increased clean energy generation, as demand will multiply significantly (electric cars, heating no longer with gas, etc.). It becomes clear quickly that there is going to be the need for utility scale generation to meet this demand (along with the many smaller local initiatives). This in turn brings the major institutional investor and financing economic power to the generating table. The required volume of electricity generated will meet demand, pension funds and other investors get both a "clean" income stream and meet their underlying investors demands for ESG compliant investments. Plus, of course YOU get to turn the lights on and make the coffee. Perhaps we can call this the Virtuous Circle.

In the world of manufacturing and clothing it was discussed how both Renault and H&M have made very positive steps in the Circular Economy.

Renault is aiming to turn its waste into resources. Their decision is at the heart of the transformation of the automobile industry to respond to environmental issues. They want to recover materials by recycling metals & plastics, reconditioning/reselling second-hand parts for vehicle repair and repositioning e.g. old car batteries being converted to give a second life as a store for renewable energy in buildings. This is not a nice greenwashing PR stunt. Jean-Philippe Hermine VP Environmental Strategy at Renault stated that "Altogether our recycling and remanufacturing affiliates generate a revenue of half a billion euros, half of them being purely circular."

And what about us, as the Customers and our behaviours? This is not only about the manufacturers. If for instance, we consider the broader clothing sector as an example. This sector is not always perceived as being strong in terms of ESG.

Putting this in context, if you wanted a new outfit in the 1930's, 1950s or even into the 1960s you weren't going to be able to buy as much that was mass-produced and made in cheaper manufacturing location such as Bangladesh, for only £10. You were, probably, going to buy something made closer to you. You might have even bought a pattern to sew it at home. It was going to be something of reasonable quality that was designed to last. If you bought it from a store or catalogue, the person who made it was probably paid a living wage. The price of the dress would accurately reflect all these things. Plus, consumers generally would own far fewer clothes. Step forward and now we have established much more of a throw away clothes approach, a bit like those coffee cups.

It is therefore important to see firms like H&M have made a strong commitment to sustainability, focussing on a target of 100% Circular Economy / Renewables. Interestingly its Senior Management set a target of 80%, but many assume they are in the 20% category. To succeed everyone needs to get on the train (electric of course). H&M is trialling business models including the handling of overstocked clothes, recycling and “care & repair” your clothes to prolong their life. Not mentioned during the Panel, but other clothing companies such as White Stuff, are being both environmentally friendly and using this as a driver for their business, both internally (*with staff and suppliers*) and externally with (*customers*).

These Circular Economy concepts apply across all industries, including ones which do not immediately come to mind so quickly, such as IT hardware. (bit of a non-sequitur if you don’t explain further) Maybe add “that can be recycled, refurbished or broken down into components, or scrap metal.

Finally, the Italian Ambassador was rightly proud to announce to the audience that the Embassy had now achieved a New Zero Waste status, having adopted various practices including being both more efficient, using clean energy and removing items such as single use plastics. This matched to the message they were helping spread through the event.

In conclusion, despite the negative news and the depressing facts we see every day (*unless you are Mr Trump*), there are approaches to be taken, opportunities to be identified and positive impacts to be made. Over the next few years, the Circular Economy can only continue to grow.

Each and every one of us is equally responsible. It’s about the small but significant contribution that you can make to saving the planet. The key words are REDUCING and REUSING. You don't need everything you think you "need." You don't need a separate cleaner for the floor, the windows, and the bathroom. You don't need eight blue sweaters. By reducing what we need, we're reducing what we'll eventually throw out (need to recycle). Part of the message is, before making purchases, wait, think, ask yourself, do you truly need it? Can one person really make a difference? Absolutely. Making small decisions every day in this direction impact the planet in a positive way, reducing your footprint.

Let’s all work towards this.

From an investing, financial and commercial perspective, there will be winners and losers as the global economy changes. This is accompanied by what has been termed as Transition Risk. So do not expect it to all be smooth sailing. However, there are great opportunities for those thought leaders who identify and grasp them. Over the next few years, as a buzz word with meaning, you will be hearing more and more about the Circular Economy.

Panel Speakers

- **Matthew Green** – Environmental Correspondent, Thomson Reuters
- **Mauro Micillo** - CEO Banca IMI, Head of Corporate & Investment Banking Division, Intesa SanPaolo
- **Hugh McCann**, Global Partners Lead – Europe, Ellen MacArthur Foundation
- **Tom Pye**, Team Leader for Resources, Waste and Plastics Strategy, UK Department for Environment, Food and Rural Affairs
- **Sabrina Corbo**, CEO, Green Network Energy
- **Catia Bastioli**, CEO, Novamont