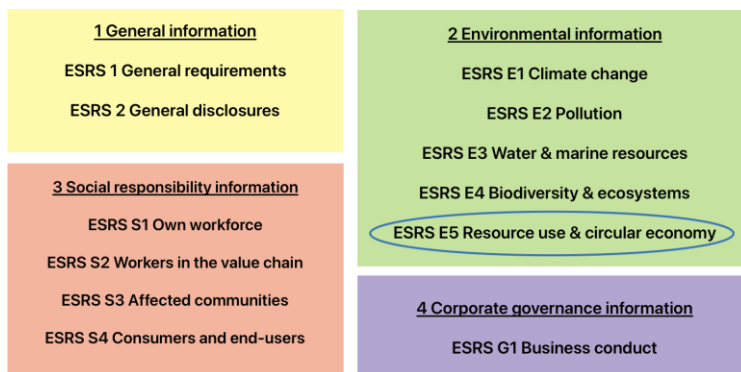




Resource use and circular economy

*This text is part of the series of brief articles that HållbarTillväxt AB has created to explain, simplify and explore the various steps that are currently most relevant in the area of sustainability; **CSRD** and **ESRS**. The ESRS consists of a total of 12 separate documents, 2 of which relate to general and comprehensive information (ESRS 1 and 2). The remaining 10, so-called topical standards, deal with various sustainability issues divided into **environment**, **social responsibility** and **corporate governance** – in English **Environment, Social and Governance**, abbreviated **ESG**. Fulfilment of the new requirements in CSRD and reporting according to ESRS is based on the involvement of all functions in a business, including the board and management. The board is ultimately responsible for sustainability reporting just as it is for financial reporting. Like the financial report, the sustainability report must now also be reviewed by an external auditor.*



The fifth topical standard in environmental information in the European Sustainability Reporting Standards (ESRS), is **E5 – Resource use and circular economy** and is part of the EU's broader strategy to create a sustainable and resource-efficient economy. The focus lies in detailing the company's resource utilisation, waste management practices, and commitment to fostering a circular business model. The goal of the standard is to enhance transparency in resource utilisation, leading to long-term waste reduction, optimization of reuse and recycling, and minimization of environmental impact across the entire product life cycle. Companies covered by CSRD are requested, when deemed material, to report on their impact across the value chain and on their efforts and progress in the circular economy to meet the requirements of ESRS E5. The standard outlines the requirements for companies to report on their management of resource flows, resource utilisation, waste management, product life cycle practices, and circular business models within their operations and across the value chain, with external audit review mandated for compliance. Preparation for reporting ESRS E5 necessitates the involvement of various skills within companies, encompassing expertise in procurement, design, logistics and production. Companies may need to develop and implement strategies that highlight the circular economy and resource efficiency across the entire value chain. This means setting targets and introducing measures that reduce resource consumption and waste generation. Companies are required to have the capability to track and report data concerning resource use and waste management, which means the establishment of robust internal systems and processes for measurement.

The value chain

The sustainability issues raised in E5 extend beyond the company's internal operations, prompting companies to assess the impact, evaluate significant consequences and mitigate risks associated with resource use and the circular economy both upstream and downstream across the value chain. For instance, this can involve an overview of the material purchased for the company, the extraction process of raw materials, and the level of resource efficiency associated with this extraction. In accordance with this standard, companies are required to report on the portion of materials such as biological or recycled material used in their own business operations. Downstream is about having knowledge of how the company's products and services affect the environment after they have left the company's control. This includes analysing the life cycle of products to identify potential negative impacts, such as carbon dioxide emissions during use and final disposal, as well as opportunities for improvements that can lead to a more circular economy. Cooperation with suppliers also becomes especially important to improve sustainability in the entire value chain, which may mean that suppliers are required to meet certain environmental standards or to work with customers to promote the recycling and reuse of products. There you can also report on how the company works with innovation and design to reduce resource use and promote recycling.



Key concepts

- **Circular economy:** An economic system that aims to promote the continuous use of resources and the elimination of waste. Circular economy means maintaining the value of and keeping products and materials in use as long as possible through reuse, recycling and repair.
- **Resource efficiency:** Utilising resources in a manner that optimises the production of goods and services while minimising resource consumption and environmental impact.
- **Life Cycle Analysis (LCA):** A method for assessing the environmental impact of a product throughout its life cycle, from raw material extraction to production, use and final disposal.
- **Reuse and recycling:** Reuse means using a product or component again for the same purpose, while recycling means converting waste materials into new products.
- **Resource inflows and outflows:** The resources that enter and the resources that leave company facilities.
- **Waste:** Substance or object which the holder discards or intends or is required to discard.

Waste management is a critical aspect of ESRS E5 and deals with the collection, transport, recovery and disposal of waste, including the supervision of such operations and the after-care of disposal sites, and including actions taken as a dealer or broker. Among other things, information is requested on how the company recycles waste, how to dispose of waste when it is required and how to take care of hazardous waste. Hazardous waste is waste that exhibits one or more of the hazardous properties listed in Annex III of the European Parliament and Council directive on waste. This includes properties such as radioactivity, explosiveness, flammability and toxicity. Companies must report on how much hazardous waste is generated in the business, which methods and assumptions are used for the calculation of this, as well as the hazardous substances that arise in production and how to handle the hazardous waste. Companies are also allowed to report how the use of hazardous substances and waste is limited.

What should be reported?

Under ESRS E5, reporting is requested in several key areas related to circular economy and resource use where it is deemed essential. This includes **resource consumption**, the amount of materials the company uses, including raw materials and inputs, and how they work to reduce this consumption. **Waste management**, the amount of waste the company generates and how this waste is managed, including recycling, reuse and final disposal. **Product life cycle management**, how the company manages the products' entire life cycle to minimise the environmental impact along the entire value chain. **Circular business models**, such as leasing and product-service systems, to promote reuse and reduce resource consumption. For successful reporting, companies should prepare the following:

- **Policies related to Resource use and Circular Economy** – A description of policies and strategies to manage resource use and promote a circular economy.
- **Measures and resources** – Here the company describes what is being done to promote a circular economy and how resources are used for this purpose.
- **Objectives and indicators** – The reporting includes specific targets related to resource use and circular economy as well as indicators to measure progress towards these targets.
- **Resource inflows** – The materials and resources purchased and used in the business, including renewable and non-renewable resources. This includes the amount, reported in tonnes, of raw materials and products that are used and how much of this is recycled material or the proportion of biological material.
- **Resource outflows** - This describes the products, services and materials that leave the company, including waste management. This includes product life, how goods can be reused and maintained to preserve the lifespan as long as possible. The amount of waste generated and how this waste is handled, with particular emphasis on recycling and safe disposal of hazardous waste must be reported.
- **Financial effects of Resource use and Circular Economy** – In the future, companies must also report on the expected financial effects of their efforts in resource use and circular economy. This may include estimates of both cost increases and cost savings from reduced resource use, limited access to input goods, potential income from recycled materials, as well as risks and opportunities related to the transition to a circular economy.

