This fact sheet offers a framework for the concept of circular procurement. In this fact sheet, we provide an overview of the basic principles of circular procurement. The aim is to enable signatories to the Green Deal for Circular Procurement to align their operations and speak a common language (1). This fact sheet is furthermore intended to outline enabling conditions for the implementation of circular procurement (2) and flag up challenges (3).

1) What are the basic principles of circular procurement?

The circular economy
The circular economy is an economic system based on supply chain collaboration. It is intended to counteract resource wastage by maximising reusability of products and materials and minimising value destruction. This is contrary to the current linear system. In that system, raw materials are turned into products that are generally destroyed at the end of their service life.

Circular procurement
Use of procurement to encourage production and (re)use of circular products and services, and thus boost the circular economy.

Raw material value retention
In circular procurement, the focus is on retention of the value of products and materials. This does not mean, however, that other aspects of sustainability are irrelevant or that participating parties should not focus on those. That would not be credible. Eventually, it is about an integrated approach to sustainability where circularity is one of the enabling conditions. Viewed in this way, circular procurement is an aspect of sustainable procurement.

This focus means that we will not directly refer to, for example, social conditions under which raw materials are extracted. Neither will we consider emissions produced across the supply chain or the incorporation of the disadvantaged in the labour market. These are aspects of an integrated approach to sustainability, but not specific to circular procurement. The focus on retention of the value of products and materials makes the challenge we face easy to grasp, manageable.

Supply Chain Collaboration
In circular procurement, manufacturer, supplier, procurer, user, and processor join forces in moving toward a circular economy together. Consequently, the emphasis of circular procurement is on collaboration across the supply chain to be able to close the cycle. In other words: directing efforts toward closing cycles. Spreading responsibility for proper use and closing a product’s life cycle across the supply chain. This enables parties to get a better grip on costs and risks. The supplier transforms his often short-term – sales-based – relationship into a partnership based on transparent interests and mutual trust. Value retention for products and materials is then equally important to all parties. Supply chain collaboration is about the extent and manner of process design, safeguarding, transparency, guarantees and organisation based on tailored contract types and/or provisions.

2) What are the enabling conditions for circular procurement?

A more functional view on needs
In many cases, the circular economy benefits from functionally described needs, based on the performance of the required product. This must be a carefully considered choice: functional specification is not ideal in all situations. In some cases, a technical description is called for, or perhaps a combination of functional and technical specifications. The banks of a river, for example, can be spanned in different ways (functional description). However, if the chosen crossing involves the use of timber, one condition may be that this timber is certified sustainably sourced timber (technical specification).

Giving space to other revenue models
By basing your call for tenders on the functional side you can give space to other revenue/business models of the supplier. These models include Product-as-a-Service, leasing, a buy back agreement.
It is all about a rethink of the concept of ‘ownership.’ After use, products are not waste but instead represent a certain (residual) value. This value is an explicit part of the revenue model and the price you are quoted.

**Setting design conditions**
In circular procurement of products or services it is advisable to think about the conditions you want the product to meet. Also think about what you will ask the (potential) supplier about this. The following questions can be helpful here:

- Is the product/service/work suited for high-grade reuse? Is the design modular/C2C?
- Does the product contain reused raw materials/parts? What percentage of the product is made from recycled material?
- What is the product's projected (economic and technical) service life?
- How does the design help maximise the product's life span?
- Is there a methodology that guarantees high-grade reuse and/or high-grade recycling?
- Can the supplier produce the product using fewer or more sustainable materials?
- How does the supplier explore options and ambitions in further developing the product and improving circularity?

**Setting production phase conditions**
You can also specify requirements for the supplier's production phase as part of circular procurement/requesting tenders. Relevant questions in this context include:

- Where were the materials sourced? Is there proof of that?
- How is waste handled during the production phase?
- How does the supplier handle material efficiency during the production phase? In other words, how do they prevent loss of material during production as much as possible?
- Resource recovery from waste streams and return streams
- Avoiding the use of toxic substances in the production process

**Setting use phase conditions**
Stimulate service life maximisation.

- What is the projected technical service life of the product?
- What is the projected economic service life of the product?
- What does the supplier offer in terms of repair/maintenance? Are there upgrade options?

**Setting post-use phase conditions**
Encourage the supplier to take responsibility for keeping the product or materials in the supply chain after the use phase.

- Actions taken to extend the product's service life after taking it back: upgrade, resell, repair, refurbish
- Actions taken to enable highest-grade reuse of products/parts/materials after the end of the technical service life: remanufacture, repurpose, recycle.
- For all these actions: What commitments can the supplier make for reuse of the product or materials in a subsequent cycle? How is this ‘directed’ by the supplier? Will the product not end up on the scrap heap after the 2nd user anyway? This is a complicated issue, both in terms of contents and legal implications.
- How does the supply chain organise reuse of the product, parts, and materials used. Through what steps in cascading down to recycling and why these steps?
- In which concept is the product offered and what arrangements are possible in the supply chain?

**Setting conditions for supply chain collaboration calls for tighter contract provisions and customised contracts**
In circular procurement, a purchase includes agreements on high-grade reuse at the end of the use phase and corresponding accountability. This can produce a different distribution of risks, profits, and value among all supply chain partners. The supplier may become the cycle coordinator which would involve the supplier bringing about collaboration and transparency across the supply chain. The supplier would then set the tone in optimising value retention in the supply chain. Agreements
to this effect will be captured in customised contract provisions and a corresponding bespoke contract and contract term.

Three well-known types of contract for circular procurement are:

1. Product service systems (pay per use / performance-based contract)
2. Purchase and buy back agreement
3. Purchase and resale agreement

Re 1. In this case, the supplier/manufacturer retains ownership of the product. The user pays a fee for the performance instead of for ownership of the product (pay-per-use contract). Or the user pays for his need being met. The supplier/manufacturer owns and manages the material resources that are used to produce the desired result (performance-based contract). In both cases, the supplier is required to proceed to the reuse of the product to the highest possible specification. This is after the end of the product's service life.

Re 2. In this kind of purchase agreement, the supplier/manufacturer guarantees that they will ensure optimum value retention. They also guarantee high-grade reuse of the product after use. The supplier/manufacturer can be held accountable for that. Needless to say, the user agrees to exercise due care in using the product.

Re 3. Procurement includes agreement on how and who will recover the item/product after use for reuse of materials.

3) What are the challenges of circular procurement?

A transition is required both on the side of the supplier and on the side of the procuring organisation.

The primary objective of circular procurement is to spark circular demand in the market. However, this new approach also has internal implications. After all, circular procurement impacts on internal processes and the operations of the procuring organisation. There are, for example, budget implications when opting for leasing. There are also implications for existing maintenance contracts when opting for product-as-a-service contracts that include maintenance. Choosing refurbished products instead of new ones comes with implications for facility management. Also, monitoring agreed performance during the contract term affects contract and supplier management. And let’s not forget the impact of innovative procurement methods such as market consultation, competitive dialog and functional specification on the procurement process itself.

Besides changes to internal processes, a cultural change (people accepting that no new products will be delivered) is often also required for successful circular procurement. 'Procurement' is therefore basically too narrow a concept: the procuring organisation's operations as a whole will have to adapt to the circular economy. After all, the procuring organisation's client/requisitioning party also has to accept the merit in using circular products. This transition across the entire organisation requires clear terms of reference and commitment from the management. It requires a complete (sourcing) team with the right people (including a financial controller, legal counsel, user, CE expert and procurement professional). It also requires an appropriate procurement policy. This transition is as relevant to the success of circular procurement as the transition that must take place at suppliers. Making the effects of circular procurement transparent requires insight into materials used and total internal costs. Monitoring material streams, performing impact analyses (in relation to TCO) and reduction options are things that must be explored and addressed in projects. Monitoring and accountability must be embedded in the organisation. The organisation also needs support in dealing with possible questions about the circular economy in general and resource management in particular.
Ultimately, the ambition is for circular operations to become the norm. All procurement staff, as well as logistics, execution, and policy departments, have to acquire circularity competencies. Aside from that, high-quality preservation of products and materials must be a crucial factor in investment decisions and embedded in the core business.

**The relevance of the aspects differs per situation and product group**

How relevant the abovementioned conditions and analyses are depends on the situation and the product group. For chairs, for example, reuse has been commonplace for years, while it is still a major step in the case of carpet. Photocopiers often already have a modular structure, but modular laptops are still a rarity. Each specific procurement job will therefore require assessment of the relevance of certain aspects, as well as of their impact on the market. Relevance can also be used as a yardstick in the assessment of the various aspects in the tendering process. Bottom line: organisations will have to assess the relevance and impact of the above conditions for each procurement job and each tender.

**Rewarding suppliers for making long-term plans**

Establishing a circular economy is a transitional process that will take time. When starting out with circular procurement, organisations should consider that many suppliers haven’t yet or only recently started thinking about switching to circular models. Therefore, rewarding their long-term plans is essential. In doing so, do look at how SMART these plans have been formulated and how realistic they are.

This fact sheet is a snapshot and will be updated as soon as new insights emerge. The idea is to gain insight into the supply chain (costs) together. The specific procurement market needs to start going circular in their procurement: learn to ask the right question, based on market knowledge. The sooner you start, the sooner you will learn valuable lessons.

If you have any questions or comments about this document, or would like more information about Circular Procurement, please contact Godard Croon at MVO Nederland (g.croon@mvonederland.nl or +31 (0)6 14163037) or Take Pa