

# Accelerating Circularity and Competitiveness in Europe through Product as a Service

*Recommendations for the Circular Economy Act 2026*

**Policy brief**

**June 2025**



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# Executive Summary

Achieving the 2025 Competitiveness Compass objectives and the Clean Industrial Deal ambition to shift from 12 to 24% circularity rate in Europe requires European policy to go beyond product and technological innovation, and embrace business model transformation. This policy brief aims at providing European policymakers with clear and actionable recommendations to integrate such innovative models into the 2026 Circular Economy Act.

## Key recommendations

- 1. Redefine “Product-as-a-service and other circular use- and result-oriented service models” (PaaS).**  
Expand model accessibility for businesses of all sizes and all sectors selling products and/or services, with a stronger focus on sustainability.
- 2. Support PaaS with financial incentives and public procurement policies.**  
Open up current incentive programs to PaaS contracts, develop dedicated funding for business model R&D, particularly PaaS, and support these models through public procurement policies.
- 3. Provide technical support for PaaS.**  
Support companies in their efforts to reinvent new ways to do business and significantly reduce their environmental impact, with training and technical guidance alongside financial support.
- 4. Adopt complementary recommendations from other influential entities to accelerate the transition to a circular economy.**  
Issues such as circulation of end-of-life products, depreciation rules for circular assets, and development of impact assessment tools are critical to the widespread adoption of PaaS.

“Product-as-a-service and other circular use- and result-oriented service models” will be referred to as “PaaS” in this document.

# Beyond Product and Technological Innovation: Europe's Circular Transformation Depends on Business Model Innovation

With the **Green Deal**, the European Union has set an ambitious goal: to become the first climate neutral continent by 2050. More recently, the **2025 Competitiveness Compass** called for “a joint roadmap for decarbonisation and competitiveness”. By integrating the **Circular Economy Action Plan** into the Green Deal and by making “the transition to a circular economy” one of the six climate and environmental objectives of the **Taxonomy Regulation**, the EU has identified circularity as a critical lever to achieve this objective.

However, Europe's circularity rate, measured by the European Environment Agency through circular material use rate, **has been stagnating at 12%** for at least 15 years<sup>1</sup>. The **Clean Industrial Deal** targets 24% by 2030.

To reach this objective, European companies must develop business model innovation beyond technological innovation. As far as business models are concerned, the Taxonomy explicitly highlights “**Product-as-a-service and other circular use- and result-oriented service models**” as levers that “contribute substantially to the environmental objective of transitioning to a circular economy”.

Beyond advancing circularity, Product as a Service models enable companies to grow revenue through usage or access rather than ownership, without needing to sell ever-increasing volumes of physical goods. Such models allow more sustainable value creation and “economic growth decoupled from resource use”, which is presented by the European Commission as a goal of the Green Deal.<sup>2</sup>

However, adopting such business models can prove to be challenging for companies. The purpose of this policy brief is to provide EU policymakers with four recommendations to accelerate the adoption of such innovative business models:

- Redefining “Product-as-a-service and other circular use- and result-oriented service models” (PaaS) to support service models committing to a significant environmental impact reduction.
- Supporting PaaS through financial incentives and public procurement policies.
- Providing companies with technical support
- Adopting relevant recommendations proposed by other organisations committed to circularity.

The “**PACCT for sustainability**” project was specifically created to make Product as a Service models visible, actionable, and scalable across Europe. It now gathers a network of more than 780 members across 20 countries (See Appendix for more details about “PACCT for sustainability”).

<sup>1</sup> The European Environmental Agency – Accelerating Circularity in Europe – March 2024:  
<https://www.eea.europa.eu/en/analysis/publications/accelerating-the-circular-economy>

<sup>2</sup> [https://commission.europa.eu/strategy-and-policy/priorities-2019-2024/european-green-deal\\_en](https://commission.europa.eu/strategy-and-policy/priorities-2019-2024/european-green-deal_en)

# Recommendation 1: Redefine PaaS to Make Environmental Impact Central

## Current definition of PaaS:

Currently, Product-as-(a)-Service is referenced four times in the 2020 New Circular Economy Action Plan, in its introduction and in paragraphs about sustainable product design, batteries and vehicles, and textiles. It also appears twice in the European Sustainability Reporting Standards, in the ESRS 2 (General disclosures) category as a “disclosure requirement related to ESRS 2 IRO-1” and in the Disclosure Requirement E5-2 (Environment category) among “Actions and resources related to resource use and circular economy” (as product-service systems).

The Taxonomy explicitly highlights “Product-as-a-service and other circular use- and result-oriented service models” as levers that “contribute substantially to the environmental objective of transitioning to a circular economy” and offers a definition. It describes these models as those “providing customers (physical person or legal person) with access to products through service models, which are either use-oriented services, where the product is still central, but its ownership remains with the provider and the product is leased, shared, rented or pooled; or result-oriented, where the payment is pre-defined and the agreed result (i.e. pay per service unit) is delivered.” Substantial contribution criteria include as criterion 2: “The activity leads to an extended lifespan or increased use intensity of the product in practice.”

## Limits of the definition:

By making ownership by the supplier a compulsory criterion, this definition significantly limits applications in many different industries: tire industry, solar panel industry, agro-chemistry, IT sector, ...

Moreover, the environmental criteria defined in the Taxonomy (“extended lifespan or increased use intensity”) do not fully reflect all possible levers, particularly the reduction of energy or raw materials consumption for equivalent outcomes. For example, Light as a Service offerings commit to significantly reducing energy consumption. It is essential that such resource-saving benefits be acknowledged in the European definition of PaaS alongside existing criteria.

Substantial contribution criterion 2 should also be reinforced in order to reach the 24% circularity rate ambition defined in the 2025 Clean Industrial Deal.

### **Example of PaaS excluded from the Taxonomy definition:**

In the Tire Industry, approximately 15% of the European Truck and Bus business is run through “Tire as a Service” offers. Today, these offers remain outside the scope of the Taxonomy, because suppliers do not retain ownership. Yet such as-a-service offers prevent the emission of 300 000 t. of CO<sub>2</sub> and the extraction of 26 000 t. of raw materials annually, by optimizing fleets’ tire management and fuel consumption. In such a case, environmental and decarbonisation benefits stem directly from the structure of the PaaS offer, which incentivizes providers to improve durability, efficiency and resource optimization.

### **PACCT’s proposed definition:**

In order to concentrate more on the expected results than on the means to reach them, PACCT for sustainability proposes the following definition:

*“Providing customers (physical person or legal person) with access to products or services through use-oriented or result-oriented service models, where the payment is pre-defined and the agreed result (i.e. pay per service unit) is delivered. The contract integrates a commitment to generate significant and measurable reduction in environmental impact.”*

### **Substantial contribution criteria:**

1. The activity provides the customer (physical or legal persons) with access to, and use of product(s) or service(s). The contractual terms and conditions ensure that all the following sub-criteria are met:

- a. there is an obligation for the provider of the service to take back the used product at the end of the contractual agreement;
- b. there is an obligation for the customer to give back the used product at the end of the contractual agreement;
- c. the customer pays for access to and use of the product, or the result of access to and use of this product.

2. The contract integrates a commitment to generate significant and measurable reduction in environmental impact. Environmental impact can take many different forms: extended lifespan, increased use intensity, lower energy consumption, lower volume of products for a desired output, increased reuse or refurbishment, lower CO<sub>2</sub> emissions, ... (About measurement tools for environmental impact, see Recommendation 4).

Substantial contribution criteria 3 and 4 related to packaging and textile regulations should remain.



### **PaaS model vs Linear model:**

PaaS is a significant shift away from volume and product-centric business models used in the linear economy:

- In a linear economy, suppliers design and produce goods that are sold directly or indirectly to end-users, who alone bear the responsibility of using them efficiently, maintaining them, and managing their end-of-life. Suppliers are driven by volume maximization.
- In a PaaS, suppliers combine products with services, including maintenance, efficiency, end-of-life management, ... to commit on both an environmental impact and additional benefits for their customers: peace of mind, compliance, access to data and information, ...
- In a PaaS, the supplier's financial interest lies in maximizing efficiency – delivering the agreed outcome while minimizing resource use. This creates a built-in driver for reducing energy use and raw material consumption. PaaS is an active accelerator of circularity and eco-design.
- PaaS models closely align with customer needs, making them highly differentiating. As such, they offer a strong competitive advantage for companies seeking to compete against low-cost imports.
- PaaS requires responsiveness and physical proximity to customers to enable timely intervention. This inherently fosters the creation of local jobs and supports regional employment.
- PaaS requires strong, ongoing collaboration between suppliers, end-users and other stakeholders throughout the entire contract lifecycle. This sustained cooperation enhances the resilience of local economies.
- PaaS models offer benefits for businesses of all sizes – large companies as well as SMEs – and can be applied across all economic sectors.

## Recommendation 2: Support PaaS with Financial Incentives and Public Procurement Policies

Financial support and boosted demand are critical to accelerating the adoption of PaaS models, as they encourage companies to transform their business model and help them navigate the challenges associated with development and implementation. Such support must come in the form of financial incentives as well as through public procurement strategies.

Financial incentives are the first fundamental component of this support. However, most existing sustainability-focused financial incentives, at European, national or regional level, leverage mostly the purchase of a technology, therefore largely excluding PaaS.

PACCT recommends establishing a European framework for sustainability-focused financial incentives that allows PaaS contracts, as defined above, to benefit from them. This framework would apply to all existing financing programs and subsidies, whether they are granted directly by European institutions or indirectly through Member-States or Regions-led initiatives. It would make them accessible to all offers in which the supplier commits to achieving an environmental outcome, regardless of asset ownership. The focus would be on the results delivered.

### **Example of existing financing program limiting the adoption of PaaS by making purchase a criterion:**

Making purchase a criterion appears as a particularly evident barrier in the case of solar panels installations. Across Europe, these installations are widely supported by subsidy programs such as the SolarPLUS Program in Berlin, Germany (Förderprogramm SolarPLUS<sup>3</sup>), the investment bonus in France (Prime à l'investissement photovoltaïque<sup>4</sup>) or the Incentives Program for Innovative Renewable Energy in Spain (Energías renovables innovadoras<sup>5</sup>), financed by Next Generation EU funding. Yet, Energy Service Companies (ESCOs), which deliver energy efficiency through PaaS models, are often ineligible to receive these subsidies directly. Because they retain ownership of the panels throughout the project, their clients are also unable to access the subsidies, which are tied to asset ownership. This limitation often prevents SMEs from installing solar panels, as the current incentives neither fully cover CAPEX nor accommodate PaaS models. When companies do manage to secure subsidies for projects involving ESCOs, the ownership requirements introduce additional complexity and financial risks for all parties involved.

Similar barriers appear for PaaS models in other economic sectors, such as mobility, energy, IT, construction, ...

Moreover, while expanding current sustainability-focused financial incentives to include PaaS models is an essential first step, it should pave the way for dedicated funding for PaaS. As with any form of innovation, business model innovation – particularly the design and development of PaaS solutions – involves significant financial and operational risks. To encourage companies to undertake these risks, targeted financial incentives are essential. However, existing European innovation financing programs tend to only target technologies.

PACCT recommends the creation of dedicated financial incentives to support the implementation of PaaS models and accelerate their widespread adoption. A key priority should be the development of financing programs to support business model R&D. The EU could build such programs by leveraging existing instruments like Horizon Europe, to support companies in exploring and operationalizing PaaS models, or the European Regional Development Fund (ERDF), to promote regionally driven initiatives.

Finally, public procurement serves as a powerful lever, facilitating the development and scaling of PaaS models. However, current EU Green Public Procurement (GPP) policies largely overlook business model innovation, particularly PaaS solutions. The European GPP criteria<sup>6</sup>, derived from the European Commission’s Communication “Public procurement for a better environment”<sup>7</sup> focus primarily on product specifications, such as the use of recycled materials or the exclusion of hazardous substances, and usage conditions. Similarly, the upcoming Delegated Acts under the Ecodesign for Sustainable Products Regulation (ESPR)<sup>8</sup> will mainly reinforce the role of eco-design among public procurement criteria. To date, only the guidance brochure “Public Procurement for a circular economy”<sup>9</sup> briefly acknowledges product-service systems as a relevant strategy for promoting circularity.

PACCT recommends that PaaS, as previously defined, be explicitly integrated in European GPP policies. The EU should strengthen GPP frameworks to further evolve public procurement decision-making process from a financial consideration into a strategic tool for addressing social and environmental needs. PaaS solutions are particularly well-suited to drive this transformation. Including a dedicated section on PaaS in GPP criteria documents would reinforce the EU’s commitment to integrating public procurement into its environmental strategy and support the diffusion of PaaS by providing companies with tangible market opportunities. In particular, the forthcoming ESPR GPP implementing Acts should acknowledge PaaS models, as they extend product lifespan and facilitate closing the loop at the end of its lifecycle.

<sup>3</sup> <https://www.berlin.de/solarcity/solarcity-berlin/im-fokus/foerderprogramm-solarplus/>

<sup>4</sup> <https://www.economie.gouv.fr/particuliers/aides-installation-photovoltaiques>

<sup>5</sup> <https://sede.idae.gob.es/tramites-servicios/programa-de-incentivos-de-proyectos-innovadores-de-energias-renovables-y>

<sup>6</sup> [https://circabc.europa.eu/ui/group/44278090-3fae-4515-bcc2-44fd57c1d0d1/library/b1af4b10-e76c-4e7c-816a-6d9644a5691b?p=1&n=-1&sort=name\\_ASC](https://circabc.europa.eu/ui/group/44278090-3fae-4515-bcc2-44fd57c1d0d1/library/b1af4b10-e76c-4e7c-816a-6d9644a5691b?p=1&n=-1&sort=name_ASC)

<sup>7</sup> <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52008DC0400>

<sup>8</sup> <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32024R1781&qid=1719580391746>

<sup>9</sup> [https://circulareconomy.europa.eu/platform/sites/default/files/knowledge\\_-public\\_procurement\\_circular\\_economy\\_brochure.pdf](https://circulareconomy.europa.eu/platform/sites/default/files/knowledge_-public_procurement_circular_economy_brochure.pdf)



## Recommendation 3: Provide Technical Support for PaaS

Although PaaS models are mature in sectors like aeronautics, printing or tire, they are still in the early stages of development and scaling in other sectors.

Companies exploring and implementing innovative business models – of which PaaS offers – face business, financial and operational risks. Financial support is necessary but not sufficient to address these challenges. Targeted technical support and guidance are equally essential. Yet, existing European and national policies and programs focus on supporting technological innovation, disregarding business model innovation. Furthermore, these programs tend to favor financial support over technical assistance.

PACCT recommends developing a comprehensive program to support the development and implementation of PaaS models in all economic sectors across Europe. In addition to financial support, this program should offer two key forms of technical support:

- Raising awareness and disseminating knowledge through:
  - Experience sharing programs,
  - Trainings for European, National and Regional institutions,
  - Coordinated animation of networks of companies and academic and research centers.
- Offering long-term support to companies exploring or scaling PaaS.

PACCT recommends that the EU implement a decentralized and regionalized action plan to accelerate the diffusion of PaaS models, bringing support as close to businesses as possible. To that end, the EU should lean on national agencies for ecological transition or environmental protection, while addressing any existing gaps in their knowledge and financial resources. This would empower these agencies to design and deliver effective support programs dedicated to business model innovation and PaaS.

### **The example of ADEME in France:**

ADEME, the French governmental Agency for Ecological Transition, plays a leading role in promoting “Cooperative and Functional Economy”, which includes PaaS solutions, by activating key levers:

- Sharing knowledge through dedicated training, implementation guides and insights from businesses that have already developed PaaS offers.
- Providing hands-on operational support by working closely with regional and local stakeholders.
- Developing targeted tools to support the deployment of PaaS solutions.
- Building specific measurement methodologies to assess environmental and social impact.
- Financing R&D through a fund dedicated to “Cooperative and Functional Economy” that is accessible to all businesses.
- Promoting PaaS models in coordination with economic network leaders and relevant ministries (Ministry of the Economy, Ministry of Ecological transition...).

ADEME’s work is instrumental in advancing the “Cooperative and Functional Economy” and PaaS models in France. It helped major companies, such as Orange, Bouygues, Suez, Engie and Xarvio-BASF, to explore business model transformation. It also supports SMEs in developing PaaS offers. For instance, Areco, an SME specializing in humidification for fresh food sections, was able to implement a service-based solution to improve the benefits of its product thanks to ADEME’s support.

## Recommendation 4: Adopt Complementary Recommendations from Other Influential Entities to Accelerate the Transition to a Circular Economy

The three recommendations presented above are critical to accelerate the environmental transformation of the European Economy and to strengthen its competitiveness. Yet, they are not sufficient on their own. PACCT also endorses complementary initiatives and policy recommendations:

### 1. Simplifying Cross-Border Waste Transport

Current waste regulations across the EU remain fragmented and complex, with end-of-waste criteria differing between Member States. This lack of harmonization creates significant barriers to the cross-border movement of waste waiting to be recycled. To ease the adoption of circular models and PaaS models, it is crucial that companies can efficiently transport end-of-life products from where they are used to where they can be recycled or reconditioned, regardless of national borders. PACCT therefore supports policy recommendations that advance this goal, such as those outlined in the BlackCycle project Working Policy Brief<sup>10</sup>, the Bruegel policy brief by Heather Grabbe and Luca Léry Moffat titled *A European circular single market for economic security and competitiveness*<sup>11</sup>, and the International Chamber of Commerce policy brief: *Circular material flows for research and innovation*<sup>12</sup>.

### 2. Aligning asset depreciation with extended lifecycles

In PaaS models, as well as in all circular models, assets are designed to remain in use during a significantly longer period than in linear models. However, existing depreciation rules are not adapted to reflect these extended lifespans. It is therefore urgent to revise amortization schedules to align with the actual useful life of assets. PACCT supports initiatives such as the Coalition Circular Accounting<sup>13</sup> led by the Circle Economy Foundation and the Netherlands Institute of Chartered Accountants, which advocate for such changes.

<sup>10</sup> <https://blackcycle-project.eu/policy-brief-2/>

<sup>11</sup> <https://www.bruegel.org/policy-brief/european-circular-single-market-economic-security-and-competitiveness>

<sup>12</sup> <https://iccwbo.org/wp-content/uploads/sites/3/2023/06/2023-ICC-x-Swedish-Enterprise-Circular-material-flows-for-research-and-innovation.pdf>

<sup>13</sup> <https://www.circle-economy.com/programmes/finance/coalition-circular-accounting>

### **3. Developing new impact measurement tools beyond LCA**

Life Cycle Assessment (LCA) remains the most widely used tool to assess the environmental footprint of products and services. It is currently the most comprehensive and reliable method to identify business models that deliver environmental benefits. For example, a leasing model may not qualify as a Product as a Service (PaaS), as defined above, if the associated LCA does not demonstrate substantial and quantifiable environmental benefits. However, LCA alone is not sufficient to capture the full range of positive impacts associated with PaaS models. Moreover, stakeholders within the same sector tend to use it in a variety of ways. PACCT therefore recommends developing complementary tools to assess both environmental and social impacts, with standardised methodologies to ensure comparability. The EU should actively support this effort by funding collaborative research initiatives that bring together academics and companies.

### **4. Promoting Green VAT**

The EU will launch a Clean Industry Dialogue, which will also discuss the Green VAT Initiative, during Q4 of 2026. PaaS could very much benefit from being integrated into such discussions to accelerate the adoption of sustainable and circular business models.

# Appendix

## About “PACCT for sustainability”

“PACCT for sustainability” (PACCT) is a project of Johnston Circular, a French consulting firm dedicated to accelerating the environmental transformation of the economy through Product as a Service and other innovative business models. PACCT was created in January 2024.

In 2025, the PACCT project is actively supported and financed by: ADEME (the French governmental agency for ecological transition), the Michelin Group and Xarvio, a subsidiary of the BASF Group.

PACCT is backed by an independent Scientific Advisory Board composed of experts from the BASE Foundation in Switzerland, the Circle Economy Foundation in the Netherlands, Aston Business School in the UK, RISE in Sweden and INP Grenoble in France, ensuring the quality and credibility of the content shared within the network

The objective of PACCT is to ease the adoption of Product as a Service business models to accelerate the environmental transformation of the economy. It does so by creating and animating a network of professionals involved or interested in these business models, generating content, and producing recommendations for policymakers.

In May 2025, the project brings together a network of over 780 members from more than 20 countries. PACCT has organized several webinars and produced a White Paper in October 2024 dedicated to Product as a Service in Europe.

In 2025 and for the years to come, PACCT aims to continue expanding its network, sharing knowledge and increasing the visibility of innovative result-oriented business models across Europe and beyond.

[www.pacct-sustainability.org](http://www.pacct-sustainability.org)

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