



THE CIRCULAR ECONOMY CALLS FOR SMOOTH CONTRACTUAL PRACTICES

New business opportunities from a circular economy transition

The goal of circular economy business is to generate profit from material and product flows that keep the resources, materials or products in circulation for as long and as sustainably as possible. Good circular economy business minimises the amount of waste generated and is resource smart. Circular economy business can mean providing services instead of products or extending the life cycle of products through maintenance, repair or remanufacturing. It can support resource-efficient solutions and promote the use of renewable and recyclable materials as well as renewable energy in product design and manufacture.

Contracts are an important part of planning and implementing sustainable circular economy business. If successful, contracts can act as an incentive for circular economy, but if unsuccessful, they may slow down or even prevent the development of business stimulating the circular economy. This policy recommendation explains how contracts can benefit companies and what companies should take into account when drawing up contracts. It is based on a 2021 [report](#)¹ on contract law-related questions in the circular economy, which also includes interviews with parties engaging in circular economy business in Finland.

Text:
Nina Aarras
Eija Miettinen
Heta Tammela
Ville Rautiainen
Seita Romppanen
Kaisa Huhta
Topi Turunen

¹ The report is available on the CICAT2025 website at:
https://cicat2025.turkuamk.fi/fi/yleinen-fi/kiertotalous_sopimusoikeus/

What do contracts in the circular economy focus on and what kinds of problems arise in contractual activities?

The general principles and rules of contract law also apply to the circular economy businesses. Freedom of contract is a fundamental principle in this respect. *Contracts related to the circular economy* can be categorised based on the kind of operating environment in which they are drawn up, the kind of business they focus on and the way in which they are expected to promote the circular economy.

Challenges arising from circular economy contracts are typically related to the contract process and the content of contracts. In other words, how the contracts are drawn up and what all must be considered in the process.

Trust is emphasized in the circular economy contracts

One of the goals of contracts between circular economy objectives is to promote the circular economy. Circular economy contracts refer to the arrangements explicitly related to the product or service targeted by circular economy business. In addition to contracts directly related to this objective, business operators also conclude other contracts concerning general business operations, such as rental agreements for facilities and employment contracts for employees. Before the actual contract process can begin, all parties must determine their own business areas that require or can be organised through contracts.

Contracts are used to set up business relationships, as mutually agreed by the parties, and to specify obligations and responsibilities between the contracting parties. Both oral and written contracts are used in the circular economy. Oral contracts emphasise the contracting parties' trust in the obligations and responsibilities being clear to everyone. As long as the obligations and responsibilities are clarified during the contract process, it is usually easy for the parties to reach a final agreement concerning them without a written contract.

However, unexpected situations may lead to uncertainties regarding orally agreed obligations and responsibilities and cause disagreement on the content of the contract. Written agreements offer legal certainty to all contracting parties. If required, they can be referred to for guidance on the agreed obligations and responsibilities. A request for a written contract should not be taken as a sign of distrust but rather as creating a foundation for a strong business relationship.



Individual contracts concluded by operators can be a major factor in determining whether the business is considered to promote the circular economy. Contracts can serve as proof of the party's commitment to the values of the circular economy and their promotion. Promoting the circular economy can be an important incentive in the contract process, for example through the resulting positive publicity. The responsibilities and obligations related to promoting the circular economy must be specified clearly and in writing so that they can be returned to or revised in the event of any uncertainty.

Contractual chains and contract networks

Instead of simple bilateral contracts, circular economy operators typically conclude contracts that form networks or chains around different functions or operations. It is important to identify such contract networks and chains from the perspective of contractual relationships and risk management.

The interviews conducted for the CICAT report revealed challenges related to contracts concerning the delivery of raw materials, products and services required for business operations. The volume and quality of goods and frequency of delivery were some of the key questions related to such contracts. An extensive network of delivery contracts can help spread the risks related to the continuity of operations. In this way, contract networks can also be used in risk management. The type of contract is another important consideration, which should already be taken into account when determining the needs for contracts.

Each party is independently responsible for managing their contracts and the networks and chains they form. Circular economy actors operating in the same area may have common interests, but conflicts may also arise. One way to increase and maintain regional cooperation is for regional actors to jointly manage their contractual relationships.

Recommendations for resolving contract law-related challenges in the circular economy – steps for smooth contracts

The report *on contract law-related questions in the circular economy* identified problems and challenges related to the contracts of circular economy players and proposed solutions to them. The recommendations and examples help operators who engage in circular economy business or are planning to do so to tackle challenges linked to the contract process:

Problem

Uncertainties related to (raw) material deliveries, especially concerning the use of waste material as raw material in production.

Recommendation

Agree on the quality, volume and time of delivery of the (raw) material, as well as the frequency of delivery in writing. Contracts concluded with more than one supplier spread the risks related to the reliability of deliveries.

Example of contract clause: Supplier X provides weekly deliveries of batch Z over the period of 00 to the address Y indicated by the buyer. Batch Z must satisfy the quality requirements V.

Problem

Problems concerning product or service maintenance, especially related to life cycle-extending business (such as leasing operations or impaired product usability).

Recommendation

Specify the purpose and conditions of use of the product or service in the terms and conditions of the contract. If required, draw up a framework agreement for the future service and maintenance of the product or service.

Problem

Breaches of contract (situations in which contractual obligations are not complied with). Unexpected situations.

Recommendation

Conclude a written contract. Clearly specify the contractual obligations and responsibilities in the terms and conditions. Agree on a penalty, if required.

Problem

Uncertainty concerning the agreed responsibilities and obligations. Ambiguous contract content and liability for damages (for example, damage caused either during normal use or due to inappropriate use to an apartment or product that the service concerns).

Recommendation

Conclude a written contract. Include standard terms of service use in the terms and conditions of the contract. Prepare for accidents with limitation of liability clauses included in the terms of use. Insure the object of the service.

Problem

Choosing the appropriate type of contract for a developing circular economy business. It may be impossible to find suitable contract models or types that take into account the special needs for contracts in the circular economy.

Recommendation

Survey and identify the business areas and measures that require and can be organised with contracts. Determine the key content, purpose and goal of the contract in writing.

Problem

Joint management of contractual relationships in an eco-industrial park. An eco-industrial park is a specific area in which materials, energy and knowledge circulate among the operators. Smooth cooperation is a must in such a setting. A large number of individual and separate contracts may erode the operating conditions of an eco-industrial park and result in partial optimisation.

Recommendation

Form a working group of the circular economy operators active in the area, which centrally steers and coordinates contractual procedures in the area. The members can draw up a charter for the working group, in which they specify the group's tasks and authority.

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The CICAT 2025 Circular Economy Catalysts: From Innovation to Business Ecosystems research project aims to facilitate the transition into a sustainable circular economy and supports Finland's strategic objective to become a global leader in this field by 2025. The multidisciplinary consortium is producing new knowledge on factors that promote the circular economy. It also offers concrete solutions to businesses and decision-makers that will help to facilitate the transition. The project is funded by the Strategic Research Council of the Academy of Finland.

A sustainable circular economy means reducing the use of natural resources, closing the material, energy, and nutrient loops, and ensuring that the value of products, materials and resources is retained in the economy for as long as possible.

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More information:

Nina Aarras (DSc, Economics and Business Administration)
Senior Specialist, Sweco
nina.aarras@sweco.fi

Ville Rautiainen (Doctor of Administrative Sciences)
Legal Specialist, Sweco
ville.rautiainen@sweco.fi

Topi Turunen (Doctor of Laws)
Researcher, University of Eastern Finland, legal sciences
topi.turunen@uef.fi



THE CENTER FOR CIRCULAR CHANGE, ENERGY AND ENVIRONMENTAL LAW