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THE NEXUS BETWEEN CIRCULAR ECONOMY AND COMPETITION POLICY

Snežana Radukić
University of Nis, Faculty of Economics, Serbia
✉ snezana.radukic@eknfak.ni.ac.rs
ORCID: 0000-0001-5636-28

Milan Kostić
University of Kragujevac, Faculty of Economics, Serbia
✉ mkostic@kg.ac.rs
ORCID: 0000-0003-2883-1474

Zorana Stanković
University of Nis, Faculty of Mechanical Engineering, Serbia
✉ zorana.stankovic@masfak.ni.ac.rs
ORCID: 0000-0001-8974-3916

Abstract: *Competition and sustainability are interdependent concepts which critically try to find ways to maintain the market economy without the threats to the sustainable development goals. There are a few approaches by which the competition policy might promote the circular economy. Both concepts stimulate companies to maximize the value of inputs and raw resources, while improving the efficiency of using limited resources. Since the effective use of natural resources and production efficiency go hand in hand, competition is one of the forces which accelerates the transition to a circular economy. As a result, using the present analytical framework and conventional methods, competition authorities' work can fundamentally aid in the shift to a circular economy, even in cases where regulatory action may be lacking or is insufficient. The domain of this field is not examined enough and provides ambiguous findings. The objectives of the circular economy and competition are significantly aligned, even though competition by itself does not always impel the adoption of circular business models. The main goal of the paper is to connect the circular economy and competition policy, as well as to determine the nature and specifics of this connection.*

Keywords: *competition advocacy; circular economy markets; consumers behavior; market failures; efficiency; anticompetitive conduct.*

1. Introduction

Circular economy and competition policy are two very important concepts. Both are related to the higher economic and social welfare. In the case of circular economy, higher welfare could be achieved through minimizing the usage of the natural resources and through minimizing the waste, emission, and energy leakages. All these things could improve economic and social welfare, especially for future generations. On the other hand, competition policy could improve welfare through enabling free competitions between undertakings and in that case allocative efficiency. One could conclude that the circular economy approach is related to the long-run welfare increasing, while competition policy is mainly related to short-run welfare increasing. The key purpose of the paper is to connect these two concepts and to estimate if they are connectable and compatible. The usual opinion is that competition policy limits initiatives that promote sustainability and its goals, while circular economy does not. The manuscript would challenge this statement.

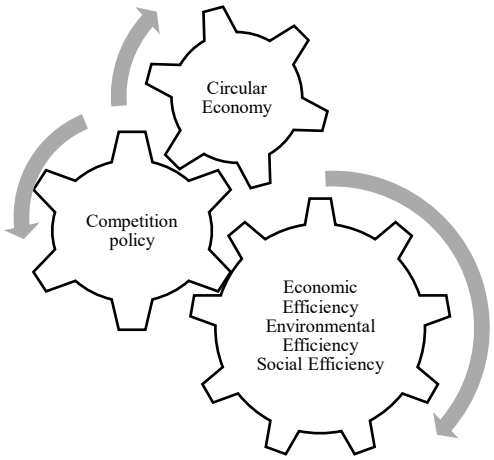
According to the main purpose of the paper, the manuscript is organized in next interconnected sections. Beside Introduction and Concluding remarks there are two sectors. The first sector is related to the contribution of circular economy and competition policy to improving the sustainability and efficiency, while the second sector, which is crucial, deals with the relationship between the competition advocacy and the circular economy at contemporary markets.

2. The contribution of circular economy and competition policy to improving the productive efficiency and green growth

The circular economy based on the reduction of waste and on the re-use and recycling of resources and materials is increasingly recognized to be at the core of supply chain resilience, the financial risk mitigation and the green transition. The main research question is whether the competition law and policies, as currently designed and applied, are compatible with circular paradigm and how these elements can be considered under the competition framework. The competition policy mediates between the circular economy and the efficiencies among the businesses (Figure 1). A competitive environment is the basis for the effective use of resources and economic growth, forcing companies to be more efficient, limit costs, and spend more to invent and develop new products (Abuselidze & Zoidze, 2023).

The main objective of the EU competition policy has been to preserve the competition within the single market. Fair competition leads to diminishing market barriers, enhances the market openness and competitiveness of sectors and the whole national economics. Also, competition propels the healthy progression of the market economy (Yan et al., 2024; Ding et al., 2022). The contemporary institutional design of competition policy is characterized by four features: (1) authority independence, (2) active stance in cartel cases, (3) economic approach in investigating the abuse of a dominant position of undertakings, and (4) competition-focused merger approach (Golovanova et al., 2024).

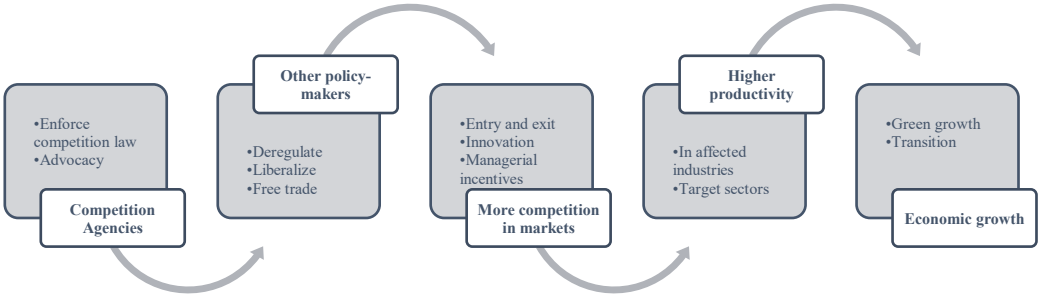
Figure 1. Theoretical framework



Source: Authors

New technologies are transforming markets, new competitors are emerging globally, and policy makers are facing a new set of priorities. Competition authorities at national and the supranational level should be determined that they forbid measures that stifle competition and productive efficiency by considering how anticompetitive agreements, actions, and mergers affect the circular economy. The demand will also drive the shift from a linear to a circular economy as knowledgeable customers will choose more and more circular economy items and businesses will compete more to supply them. Therefore, to preserve the market shares from non-circular competitors, competition agencies can use their enforcement tools to stop non-circular economy players from impeding their competitors in the circular economy and from purposefully delaying the release of their own products' more recyclable versions. In addition, competition authorities may ensure that they allow consumers to reap the circularity benefits yielded by several forms of pro-competitive business co-operation, such as standardization and R&D agreements. Competition authorities can provide concrete guidance to businesses on how competition law can consider and, when appropriate, facilitate unproblematic circular economy initiatives, with exemptions or by issuing guidelines exemplifying how pro-competitive collaborations contribute to circular economy goals. Finally, competition policy can be used as a proactive tool to support the transition to a circular economy. Competition authorities can engage in advocacy efforts to promote awareness and understanding of the value of competition principles for a well-functioning circular economy among policymakers, businesses consumers, and other stakeholders. This can be done, for instance, by issuing opinions to inform government action, by conducting market studies in strategic sectors, influencing the design of competitive tenders in circular economy markets, and monitoring regulatory barriers that may unduly hinder competition, innovation and circularity.

Figure 2. The effects of competition on green economic growth



Source: Authors according to OECD, 2014.

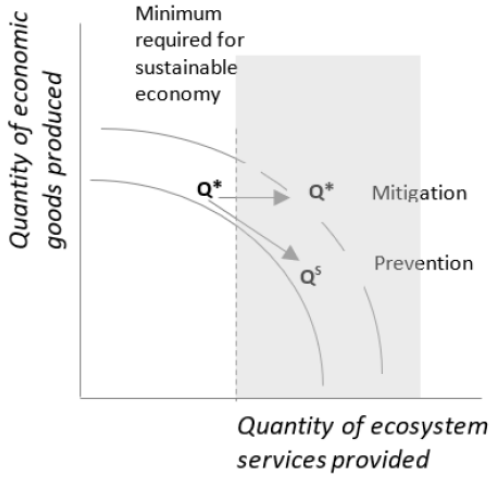
Figure 2 shows that industries where there is greater competition experience have faster productivity growth. Some studies seek to explain differences in productivity growth between industries using the measures of the intensity of competition they face. Others study the effects of specific pro-competitive interventions, particularly trade liberalization or the introduction of competition into a previously regulated, monopoly sector. An intensive competition in the upstream sectors can 'cascade' to improve the productivity and employment in the downstream sectors and so through the economy more widely. Competition leads to an improvement in allocative efficiency by allowing more efficient firms to enter and gain market share, at the expense of less efficient firms (between-firms effect). Anti-competitive behavior preventing entry and expansion, may therefore be particularly damaging for economic growth. Competition also improves the productive efficiency of firms (within-firms effects), as firms facing the competition seem to be better managed.

Although most consumers favor more sustainable products, which means that these products have "zero impact" to the consumption of resources, carbon dioxide emissions, and the creation of waste (Genova & Allegretti, 2024), in many cases they are not prepared to pay enough for clean or sustainable production. In such cases market failures occur. On the demand side, market failures include: an unwillingness to pay for the environmental or social costs unless all other consumers pay an equivalent amount, as well as underestimating the importance of future environmental damage, behavioral biases (such as the status quo bias, which discourages consumers from trying new products or changing their behavior), and the lack of accessible and reliable information about the future costs of unsustainable products. On the supply side there are the coordination issues. For instance, an investment in expensive clean technology or a decision to source raw materials more responsibly may raise a producer's costs, exposing it to the risk of being undercut by rivals relying on cheap and dirty technology or raw materials, leading everyone to stay away from investing in the better alternative. That fear may deprive the firm from the economy of scale (International Chamber of Commerce, 2020).

When the competition does not work well, the ecosystem suffers because the resources are wasted: the inefficient markets lead to a situation where the consumers

are collectively worse off. The market in which the consumers are depleting the earth's vital resources is not efficient, and it is failing. At the core of this statement is the understanding that a competition works by bringing market prices into line with the true costs of production and consumption. The role of competition can be lowering prices, limiting market power so that firms can't raise their prices above costs and extract the excessive profits. But another cause of inefficiency in markets is when prices are too low, below the true costs of production and consumption. An effective competition policy should, therefore, seek to ensure that neither of these happens. Markets could achieve more efficiency by considering the trade-off between the consumption of material goods and the preservation of ecosystem services as a Production Possibility Frontier (PPF). In Figure 3, the PPF curves illustrate all possible combinations of goods and services that society can provide, given the current level of technology. A minimum amount of natural capital must be preserved for the system to be sustainable – this is the point at which the Earth's rate of regeneration and absorption equals the rate at which the resources are harvested, or the waste is emitted. Sustainable levels of natural capital are shown as the shaded zone. Mitigation and prevention are two ways in which a society, starting from an unsustainable position on the chart (Q*), can move into the sustainable zone (Frontier Economics, 2024).

Figure 3. The ecological-economic production possibility frontier



Source: Frontier Economics, 2024.

The first strategy is mitigative so that rationalizing and innovating can change the production processes and make them less damaging, pushing the curve outwards. Mitigation is necessary if we want to maintain the current level of consumption of material goods (Q*), while at the same time achieving the sustainable markets. These agreements are there only to source sustainably produced raw materials, phase out plastics in food packaging and coordinate logistics to reduce transport distances. The second way of shifting the economy to the sustainable zone is preventative and includes limiting the quantities of a product or service produced, so that the damage

to the environment and the depreciation of natural capital can be prevented. The most appropriate strategy in any given market will be determined by the relative costs and economic logic. The price elasticity of demand plays a key role in determining the costs under each strategy, because the estimated price of the elasticity model determines the response of demand (Kansal & Tiwari, 2023; Sarkar et al., 2023; Morlotti et al., 2024). If demand is elastic, the costs of a preventative strategy are likely to be lower because it would only require a small price increase to achieve a large reduction in demand for the product. Conversely, if demand is inelastic, then a mitigative strategy may be more cost-effective. In the fast-moving markets with innovations and technological changes, a mitigative approach might be more cost effective and would avoid dampening the dynamic efficiency (Frontier Economics, 2024).

3. Competition advocacy and the circular economy markets

Competition should continue to play the vital role of eroding the profit margin, in such manner that firms do not earn excess profits over and above the price levels necessary to reverse the environmental harm. It must also work to ensure that markets deliver what consumers want and need. This would be a market delivering allocative efficiency, whereby resources are utilized in the minimum amounts necessary to bring maximum value to society on a sustainable basis.

A significant alignment between the goals of competition policy and those of the circular economy can reinforce each other, so the market players can engage in competitive dynamics that supports the maximization of productive efficiency and the transition to a circular economy. The complementarity of the competition and the circular economy is fostered by the competition enforcement against the practices hindering sustainability and the interaction of competition law and business activities can lead to an increased sustainability (OCED, 2020).

Competition is largely supportive of the circular economy by providing the incentives for productive efficiency, which in turn leads to innovative business models and products, new markets, co-operative and synergy-creating settings, and standardization. There are some ways in which competition may promote circularity by stimulating innovation investments, the development of new circular business models, collaboration with other companies for the exploitation of synergies, standardization, and market creation.

Companies may be encouraged by competition to implement one or more of these business models to gain a competitive edge. Therefore, they can satisfy the demands of the circular economy while reducing costs, breaking into a profitable market or providing customers with a more innovative product. In this regard, the main ways in which the competition law and policy, as traditionally interpreted and applied, can support the circular economy are these:

1. Creation of incentives for an efficient use of resources,
2. Development of innovations,
3. Design of circular economy business models:

- *Circular supply* (renewable and recovered input is used instead of extraction of virgin resources);
- *Resource recovery* (the use of secondary input materials derived from waste is maximized to avert extraction of new resources);
- *Product life extension* (the end of life of products is extended as late as possible);
- *Sharing* (existing infrastructure and scarce goods are shared to avoid under-use and reduce demand for new raw materials);
- *Product-as-a-service* (the products are marketed by the supplier as a service, encouraging recycling and refurbishing of products).

4. Pro-competitive collaboration.

   Competition can also encourage businesses to collaborate by combining complementary skills and technologies to offer new and better circular products to consumers. Various forms of pro-circularity cooperation, such as those aimed at providing a new solution to a technical problem or at creating a new product, do not typically raise competition concerns, provided that the exchange of information that they involve is limited to what is strictly necessary for the collaboration to be successful. This pro-competitive collaboration creates energetic effects.

5. Standardization.

   These arrangements aim at setting technical or quality requirements for a certain product or service. In addition, standardization is largely beneficial from the competition viewpoint, because it may allow compatibility and interoperability of products, with positive impact on consumers, technological advancement, creation of new products and markets, and lower transaction costs.

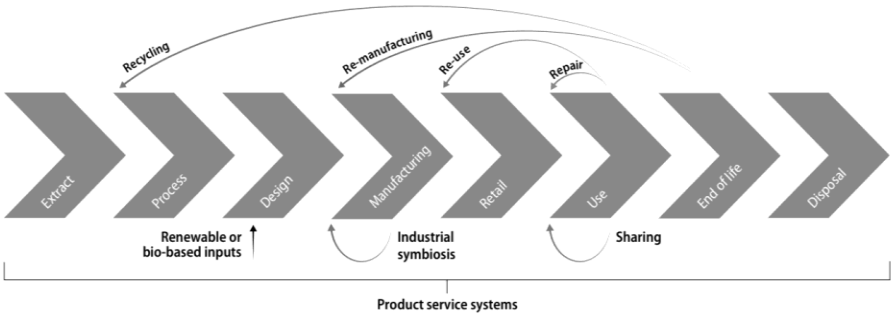
6. Market creation.

   Competition pushes market players to respond to consumer demands in the most efficient way. Innovative ways to reuse or recycle waste materials can enable the firm to enter and compete in new markets where such materials are a valuable input in the production process. Then, this can lead to market creation and the development of entirely new circular products which attract market players and generate more competition in circular markets, further promoting efficiency, choice, and innovation.

The global economic system, which is characterized by the rapid increas in consumerism, is no longer sustainable. The adoption and adherence to linear practices have resulted in the depletion of natural resources. In response to these challenges, there was presented an approach designed to achieve sustainable growth and which can ensure a transition from a traditional linear production function to a circular one (Broman & Robert, 2017; Hondroyiannis et al., 2023). This approach is a circular economy approach. Circular economy can be defined as “a regenerative system in which resource input and waste, emission, and energy leakage are minimized by slowing, closing, and narrowing material and energy loops. This can

be achieved through a long-lasting design, maintenance, repair, reuse, remanufacturing, refurbishing, and recycling" (Geissdoerfer et al., 2017). It is referred to as an economic system based on 3Rs: reduction of waste, reusing and recycling of resources and materials to the maximum extent possible (Figure 4). It is important to point out that the environmental knowledge positively affects both environmental concern and green consumption (Stoimenova, 2016).

Figure 4. Circular business models value chains



Source: OECD, 2019.

According to the Ellen MacArthur Foundation, the circular economy is thus founded on the following three principles: avoiding the creation of waste and pollution, saving and preserving energy, labor and materials, and protecting and enhancing renewable resources, by prolonging their duration, their re-use. Circular economy approach business model has an obligation to change business values, mindset, processes and practices (Jabbour, et al., 2019; Malik et al., 2022). Firms have to change their traditional process from the take-make-waste approach to the reduce-reuse-recycle-recover approach (Malik et al., 2022).

Table 1. Anticompetitive conduct and theories of harm related to circular economy

Anticompetitive conduct	*Description*
Horizontal restrictions of competition	Cartel or exchange of commercially sensitive information between buyers of recycled materials. Agreements or exchange of information between undertakings with an access to circular input or technology to reduce the use of that input, increase its price or slow down the development or the implementation of technology.
Vertical restrictions of competition	An agreement between the manufacturer and the retailers imposing fixed and minimum resale prices for the recycled product. Selective distribution agreements where the quality criteria implicitly exclude the recycled materials. Exclusive supply obligations to make the supplier sell a recyclable input only to one buyer and affecting a significant part of the market.

	Exclusive purchasing obligations to make the downstream customer buy from a specific non-circular supplier and affecting a significant part of the market.
Mixed horizontal and vertical restrictions	Exchange of commercially sensitive information between different manufacturers, facilitated by the supplier of scrap material coordinator the recycling and not necessary for setting up the recycling scheme
Abuse of dominance	Refusal to supply or provide access to indispensable infrastructure by the dominant player. Exclusivity provisions aimed at preventing trading partners from recycling more. Preventing consumers from developing or implementing more circular products and processes.

Source: OECD, 2023, pp. 20.

Some studies give specific policy recommendations for the EU competition legislation in the direction of how might supply chain and climate change issues be included into antitrust laws. Competition authorities can contribute to the shift to a more sustainable market economy (Haucap et al., 2024). Circular economy markets have some features that may be relevant under a competition analysis. These markets may often be characterized by one or more of the following:

- Infrastructure may be costly, and natural monopolies may be present. In municipal solid waste management, for example, evidence shows that costs increase when more than one collector is used.
- Markets may be local, and transportation costs may be quite relevant (e.g., the market for the collection of heavy scrap metals or for waste collection and management). Long transportation journeys may make the recycling or re-use of resources more costly, and the relevance of local infrastructure higher given the transport costs.
- Data collection and information exchange may be necessary to provide the product or the service. Sharing data may enable technological research for the reduction of waste, it may enable more efficient transport coordination along the supply chain; or it may allow collective switching to electric vehicles. To ensure that resources are used in the most efficient way, it is particularly important to preserve their quality to ensure their re-use and to enable coordination along the supply chain. The type of information that may need to be exchanged may entail anticompetitive risks, ranging from time windows and modalities for material returns, repair services, inventory, and the costs of collection and recycling (Serafimova & Hörnig, 2023).
- The service offered may be associated with a by-product or production waste that has a negative rather than a positive value (e.g., disposal of waste, scrap metal, exhausted tires, or batteries). For example, extended responsibility obligations require producers to take charge of the disposal of the by-product, which is therefore considered as a cost, rather than a source of revenue. This, however, may shift once a market for the re-use of the by-product has been established, affecting its appreciation significantly for high value material (Laubinger & Brown, 2022).

- The players may operate in an "eco-system" or so-called industrial symbiosis using the waste or by-products from one production process as an input for a different one.
- Different business models may be used for the purpose of keeping materials as long as possible within the economy. This leads to the development of business models sharing infrastructure and limited goods or on product-service systems, where products are offered as a service.
- Innovation and R&D investments may represent an extremely important part of a circular business and inform competitive commercial strategies and acquisitions. Companies which have in the past invested in non-circular technologies (e.g. for the extraction of primary resources) are more likely to continue investing in such technologies, rather than switching to circular ones. Therefore, there can be incentives for anticompetitive dynamics between circular and non-circular undertakings when they interact in a specific market, particularly if the former meet customers' or consumers' preferences.

Based on the above-described features of the circular economy markets, there are a few characteristics of the circular economy that may contribute to market power and potentially raise the competition policy challenges such as *intellectual property rights* and:

- *Infrastructures, economies of scale, and network effects*: in many circular economy markets, the presence of infrastructure (for recycling or waste collection) may be relevant. At times, it may even be a necessary condition to operate in the market. In some cases, significant economies of scale may be present. It may also often be the case that the service offered becomes increasingly more valuable for the consumers if more consumers purchase or participate in it (as it may be the case for the establishment of a waste disposal initiative or a take-back scheme). These features, alone or in combination, may create the conditions for market power and, in some circumstances, anticompetitive concerns (especially in the form of vertical restrictions and abuses of dominance). In some cases, such conditions may also emerge following the granting of public concessions which establish an incumbent to create a market but may unduly persist, thus preventing the market entry by alternative suppliers of the service. In this context, an important distinction may be drawn in these scenarios between the competition for the market and the competition in the market. The competition for the market occurs in those situations where the market features lead undertakings to compete for the whole market rather than for only a share of it. This may happen because the market is more suitably served by only one player (e.g., a significant infrastructure), which means that that tends to be the most efficient scenario for that market. The examples include natural monopolies (where only one company can fully exploit the available economies of scale), legal monopolies (where the monopoly position of the market player is protected by law, such as by the means of intellectual property rights), publicly funded monopolies (where the government only purchases from one supplier) and platform monopolies (where the network effects are significant). Since all these categories of markets may be relevant for the circular economy it must be observed that, while the competition in the

market tends to be always desirable, in some markets where the circularity may be important (e.g., recycling waste), the competition in the market may not take place due to specific circumstances. Where this is the case, and governments decide to opt for the award of time limited exclusive rights to enable market entry and create competition for the market in the short run, these should be allocated by the means of competitive tendering, as a preferable option to the direct granting of privileged rights.

- *Vertical integration as barriers to entry and local markets*: circular economy supply chains and business models may require significant infrastructural or technological investments or vertical integration. This may facilitate the creation of barriers to entry for undertakings that do not have the size or the necessary access to capital to compete. For instance, a circular economy undertaking which owns a necessary infrastructure can attempt to prevent competitors from entering the market or, if present both upstream and downstream, engage in margin squeeze type of behavior. The presence of the infrastructure or vertical integration may provide the opportunity to lessen the competition (Sharma et al., 2022).

5. Concluding remarks

As one can notice the competition policy could be the engine of sustainable economic growth. That could be, for example, through supporting the circular economy. There is a high interconnection between the competition policy and the circular economy. This interconnection means that the competition policy needs to be some kind of a supporter of the circular economy. This support can be through preventing the anticompetitive practice related to the agreements between the undertakings related to the decreasing usage of circular inputs or technology, or on slowing down the development or implementation of the circular technology. Also, circular friendly competition policy has to prevent vertical agreement from an exclusive supply of recyclable inputs only to one buyer. In the field of abuse of a dominant position, the competition policy has to prevent dominant undertakings from the established charges which can prevent trading partners from recycling more. Also, the competition policy has to stop dominant undertakings from preventing consumers from launching more circular processes and products (Table 1).

The competition policy enforcement has to be tailored to the circular economy goals. Because some investment in circular infrastructure and productions is very expensive, the competition policy has to be more flexible to the horizontal agreements, especially the ones related to the R&D. On the other hand, it means that the competition authorities have to be proactive and escape every potential abuse of horizontal agreements which can be destructive for competition and economic and social welfare. Tailoring the competition policy is related to the favoring undertakings which applied the circular economy approach, as opposed to the undertakings which force the linear economy approach. In this case, the competition authorities have to be careful because of the potential "greenwashing phenomenon" or "green PR". Greenwashing is a marketing trick which means that the undertaking

(company) persuades the public that a company's products and procedures are environmentally friendly. It is some kind of act which misleads the consumers regarding the environmental practices of a company or the environmental benefits of products and processes in a company (Srisathan & Naruetharadhol, 2025). In that case these undertakings couldn't have circular economy friendly approach of the antitrust regulations. Some studies estimated that when regulators discovered greenwashing and it became publicly recognized, it can reduce the market power of the company (Liu, et al., 2025).

The general conclusion is that the competition policy and the circular economy can be compatible with the same aim, which is achieving sustainable goals. Policymakers have to understand the compatibility of these two concepts and to mix both of them in a well manner, where the circular approach and sustainable growth are crucial.

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VEZA IZMEĐU CIRKULARNE EKONOMIJE I POLITIKE KONKURENCIJE

Apstrakt: *Konkurencija i održivost su međusobno zavisni koncepti koji kritički sagledavaju načine održavanja tržišne ekonomije bez ugrožavanja ciljeva održivog razvoja. Postoji nekoliko načina na koje politika konkurencije može promovisati cirkularnu ekonomiju. I jedan i drugi koncept podstiču kompanije da maksimiziraju vrednost inputa i sirovina, istovremeno unapređujući efikasnost korišćenja ograničenih resursa. S obzirom da efektivno trošenje prirodnih resursa i efikasnost proizvodnje idu ruku pod ruku, konkurencija je jedna od sila koja ubrzava tranziciju ka cirkularnoj ekonomiji. Kao rezultat toga, korišćenjem analitičkog okvira i konvencionalnih metoda, rad antimonopolskih organa može suštinski pomoći u prelasku na cirkularnu ekonomiju, čak i u slučajevima kada regulatorne mere možda nedostaju ili su nedovoljne. Naime, ova oblast nije dovoljno ispitana i daje nejasne nalaze o prirodi veze između pojmova. Ciljevi cirkularne ekonomije i konkurencije su značajno usklađeni, iako konkurencija sama po sebi ne podstiče uvek usvajanje cirkularnih poslovnih modela. Osnovni cilj rada je da se povežu cirkularna ekonomija i politika konkurencije, kao i da se utvrdi priroda i specifičnost ove veze.*

Ključne reči: *zagovaranje konkurencije, tržišta cirkularne ekonomije, ponašanje potrošača, tržišne greške, efikasnost, nekonkurentsko ponašanje.*