

ENVIRONMENTAL POLICY AS PART OF THE SOLUTION TO THE CRISIS

RESTORATION OF THE EUROPEAN ECONOMIES FROM THE CRISES WILL HAVE TO CONSIDER THE MEASURES AND ACTIONS PROMOTING GREEN ECONOMY. ENCOURAGING CIRCULAR ECONOMY, ELIMINATING ENVIRONMENTALLY HARMFUL SUBSIDIES AND PROMOTING ENVIRONMENTAL FISCAL REFORMS ARE SOME OF THE CHALLENGES THAT THE EUROPEAN COMMISSION IS LAUNCHING TO COMBINE GREEN GROWTH AND NEW JOBS.



Restoration of the economies of Europe from the crises according to a *business as usual* scenario would be a disaster. We cannot go on as we are doing; we need to do much better than that. On the globe we have 7 billion people and many are aspiring to and reaching the lifestyle of the West over the next years. Over the 20th century, the use of fossil fuels increased with a factor 12 globally, and material extraction with a factor 8. The demand for food, feed and fibre may increase by 70% by 2050. Moreover, 60% of the world's major ecosystems that help produce these are already degraded or used unsustainably.

Towards circular economy

Is this a doomsday scenario? Not if we take the right action. We know that many prices just aren't right in our economy: most economic decisions take account of only part of the value. Our habit is to use natural resources for free. Decisions are often based on the value and utility of only one or a few ecosystem services (e.g. wood provision for a forest) and on what can be done with the land later on (e.g.

after deforestation). There is rarely any assessment of the value of wider ecosystem services – not only carbon sequestration and storage that now has such a high profile, but also soil erosion control, water purification, maintenance of genetic diversity (for crops, medicines) and air pollution control, to name but a few. The reality is that such services can have high value. Ignoring this dimension can mean taking decisions with only part of the story told.

If business as usual is no longer an option, then what can we do? The concept of resource efficiency, one of the 7 Flagship Initiatives of the Europe 2020 Strategy, is crucial to getting the prices right and moving into the direction of a green economy. Part of the green economy concept is the idea of the *circular economy* (7th Environmental Action Programme, EAP of the EU). It is a vision beyond waste management. With the circular economy we mean an industrial system that is restorative or regenerative by intention and design, which replaces the 'end-of-life' concept with re-use, shifts towards the use of renewable energy, eliminates the use of toxic chemicals, which impair re-use, and aims for the elimination of waste

through the superior design of materials, products, systems and, within this, business models. This is not just about economic theory; it is about getting the best policies implemented to make our world a better place.

Examples include:

- we have abundance of ill-defined, diffuse benefits, but precise, focussed costs: air quality, water quality, biodiversity
- there is a wrong perception on a perceived trade-off of jobs vs environment: there is the belief that extra costs on companies mean that they are less competitive
- long term, uncertain benefits vs short term certain costs: we need to reinforce the use of the precautionary principle
- global vs local: climate change, ozone, SOx and NOx, river basins, fish quotas.

European Semester and green growth

In the EU, the contrast between the various visions on the future of the economy is to an important extent seen in the context of the European Semester. The Semester is a continuous monitoring dialogue between the European Commission and the 28

Member States (MS) on their economic governance. Milestones are the Annual Growth Survey (November), the updates of the National Reform Programmes (April), and the Country-Specific Recommendations (CSR) (June/July). The Semester is supported by a large number of financial-economic EU regulations, such as the one that since 2014 obliges the Euro Area MSs to send their draft budgets for next year to the Commission, in October. The Commission reviews the budgets among others on budget allocation for the implementation of the Semester CSRs. The key question for us is therefore: how can we make environmental policy and principles part of the solution to the challenges of EU economic governance? How can the environment contribute to green growth and jobs? We think that environmental policy has a positive macro-economic impact:

- short term costs will mean long term savings (e.g. reduced health costs from air pollution, green infrastructure)
- no regret policy (e.g. banning landfill will encourage recycling, which will actually save firms money)
- environmentally harmful subsidies (EHS) disturb level playing fields
- tax environmental bads (pollution, greenfield properties) rather than economic goods (labour).

However, we need to make this crystal-clear, and underpin these arguments with the best possible data. These data exist, but they are dispersed and need to be put together.

A first example concerns environmental fiscal reform (EFR). Environmental taxes can be an important source of revenues, which is one reason why

finance ministries are looking into this. Politically, raising taxes is generally unpopular. However, under pressure everything becomes fluid, and in October 2013 the Dutch government was in a hurry to fill a budget gap of € 750 million/year and was so lucky to possess a list of potential environmental taxes; the 2014 budget now includes 4 new environmental taxes, on drinking water, landfilling, motor vehicle road tax and higher CO₂ limits for car tax reductions. Also France in 2013 announced substantial new environmental taxes, estimated to bring over € 2.5bn/year once fully implemented.

Shifting tax from labour to pollution sounds politically smoother. According to the 2013 Tax Reform Report of the European Commission, there are at least 12 MSs which have at the same time a high tax rate on labour and a low tax rate on pollution. EHS are part of the broader concept of EFR. In most MS, there is a huge potential to phase out such subsidies. The European Environment Agency (EEA) estimates that in Italy by 2015 there is a potential for phasing out EHS of more than € 6bn/year. Although phasing out such subsidies should be done by 2020, according to the EUs agreed Resource Efficiency Roadmap, this is often politically not very attractive, for example because much of these subsidies concern fossil fuel subsidies and car subsidies.

Air pollution leads to health costs, but sometimes the problem is very complex. Take the example of Malta, where traffic congestion is a problem not only for

environment and health, but also leads to a waste of energy, to huge costs for local logistics companies, to costs in terms of lost work days, and so on. Framing the problem in a broader way (not air pollution but traffic congestion) can be a way to empower all parties to be part of the solution, and to move the theme away as a sole responsibility of the transport authorities. The eco-industry is one of the few sectors where jobs have been growing even during the crisis. There are very large differences between the MSs regarding their relative share of eco-jobs. Eco-industries are only part of all the jobs linked to the environment. Although the EU has a waste hierarchy in which landfilling is the worst approach, many MS still dump more than half of their municipal waste. Others switched to incineration. Some even so enthusiastically that they underestimated the growth of recycling and meanwhile have incineration overcapacity. As economic logic says that the machines have to be fed, Sweden imports waste from Norway and the Netherlands from Italy, to be burned, defeating the principle of treatment at source.

The governance of governance

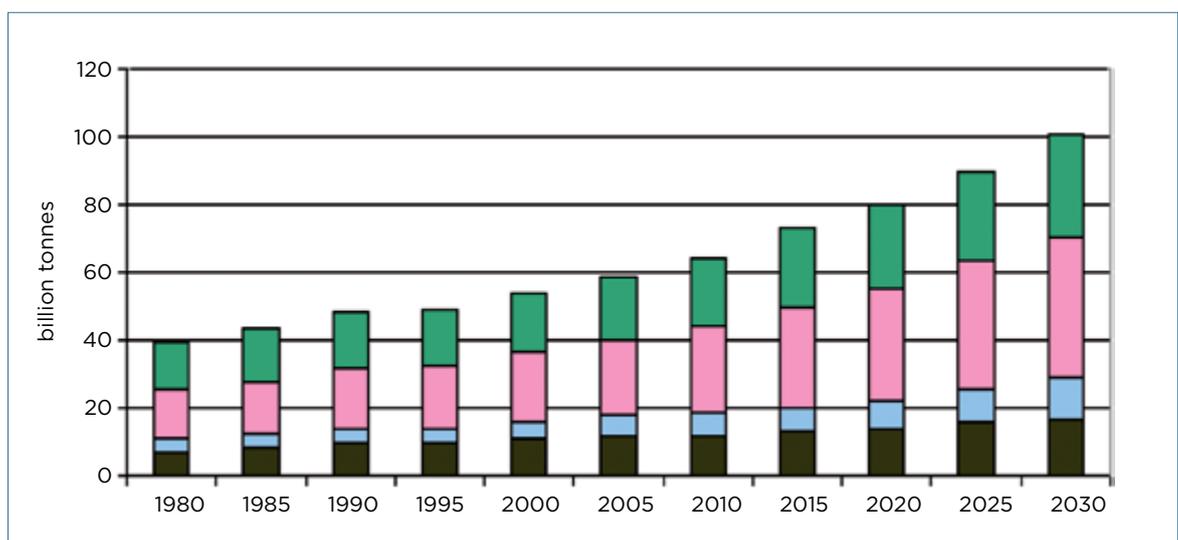
Apparently there are enough ideas, but reality is less fluid. How can we make real progress? What kind of processes can be successful? This is the governance question of greening the economic governance; it is in fact a meta-governance question: the governance of governance.

FIG. 1
UNSUSTAINABLE USE
OF RESOURCES

Global resource extraction 1980-2030 (projections 2010-2030 based on "business as usual" scenario).

Source: EEA 2010 derived from SERI GLOBAL 2000, Friends of the Earth Europe (2009).

- Biomass
- Minerals
- Metals
- Fossil fuels



Key in the current approach to green the European Semester is to make the environment a necessary and wanted partner in the EU's economic recovery process. We developed a triple strategy for this:

- *presenting convincing data* on benefits of environmental policies to structural economic reform & jobs. For example, in February 2014, case studies on the potential for environmental fiscal reform for 12 Member States and on the macro-economic costs of flooding will be presented
- *developing win-win alliances* within and between organisations. This requires being prepared to reframe environmental issues into broader issues that are of interest to other sectors. For example, from pollution to jobs: a shift from landfilling to recycling creates new "green" jobs. Assessment of the economic, social and environmental costs and benefits of policies and legislation not only improves the environment, but also saves long-term costs of wrong decisions, such as those which "lock" a government into a technology with high indirect costs
- *ensuring policy coherence*. Examples are the 7th EAP which states that we should strive for a circular economy; the UN Sustainable Development Goals: the EU will become a weak negotiator at UN level if we do not apply the principles of a green and inclusive economy to our own economy; phasing out EHS is also a matter of policy coherence. For example, Belgium gives 1/3 of its revenues from environmental taxes back in the form of fossil fuel subsidies.



Greening the economy is not a challenge for the MSs or the European Commission alone. It requires working together. On 28.11.2013, the Commission organised a workshop with the environment ministries of the EU28 on how to green our economies in the context of the European Semester. This workshop will be followed by a series of meetings promoted by the newly established Commission expert group *Greening the European Semester*. The proceedings of the expert group as well as new studies, best practices and events will be publicly available on http://ec.europa.eu/environment/integration/green_semester/index_en.htm.

Greening the Semester will not only reap economic and social benefits in terms of increased opportunity cost, it

has also the potential to increase the legitimacy of the European project in the eyes of the public as they see decisions taken that will have a direct impact of their lives.

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The views of the authors are their personal views. We thank our colleague Chris Boyd for his valuable input.
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The Italian version of the article was published on *Ecoscienza*, 6/2013, pp. 24-26.

FIG. 2
ECO-INNOVATION

Eco-Innovation Scoreboard 2012 shows the eco-innovation status of EU Member States, using 16 productivity indicators (e.g. R&D investments, eco-innovation related patents, socio-economic and environmental outcomes).

Source: Eio - Eco-Innovation Observatory (2013), "Europe in transition: Paving the way to a green economy through eco-innovation", www.eco-innovation.eu

