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POLICY BRIEF

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Towards a sustainable European economy

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BACKGROUND

Europe is faced with interlinked economic, ecological and climate crises. As identified in the European Environment Agency's *The European Environment – state and outlook 2015* report[1], Europe is increasingly affected by global trends that come with positive and negative impacts. Some of these it contributes to, some it can try to manage, while others are beyond its control. Regardless, only by anticipating these trends and making a sustainable economy the overriding policy objective, can it aim to maximise the related opportunities and minimise the threats.

World population growth, combined with traditional production and consumption patterns are putting enormous pressure on global resources – raw materials, energy sources, water, land and food – and thus the environment. Overexploitation of resources and environmental destruction lead to resource scarcity, with unforeseeable economic, social, environmental and security implications. Increased prices impact the competitiveness of economies that are dependent on external resources, like the EU that outsources the largest share of resource extraction in the world. In 2013, the EU's imports of raw materials, including energy, were worth €704 billion, making it extremely vulnerable amidst the global resource challenge.

Human activities such as burning of fossil fuels emit greenhouse gases that contribute to climate change and air pollutants that cause local and regional pollution. Climate change affects the availability of fertile land and fresh water and, consequently, food and energy production. Other risks include changing diseases and pandemics. The impacts of air pollution are felt already now: according to the World Health Organisation, diseases and deaths caused by pollutants cost the European region €1.4 (1.6 USD) trillion a year.

As a result of biodiversity losses due to human actions, ecosystems have become so vulnerable that their capacity to provide goods and services – vital for our well-being and economy – has become limited. Despite some regional improvements, Europe is failing to meet its overall target of stopping biodiversity loss by 2020.

Yet not all has to be a change for the worse. If trends such as urbanisation are combined with smart planning and new technological solutions support greener economies, this can make a significant contribution to reducing citizens' environmental and carbon footprint. What will determine the EU's competitiveness and comparative advantage globally is how well it will respond to these trends. It will depend on the emphasis given to creating a European economy that is economically, environmentally and socially sustainable, where growth is based on good management of natural resources and biodiversity, smarter use of resources and mitigating climate change.

STATE OF PLAY

Sustainable development is a fundamental objective of the EU, as confirmed in the Lisbon Treaty (Art. 2 and 10). However, this can only be achieved if supported by a coherent policy framework that integrates environmental, economic and social policies. Decisions related to production and consumption, transport, energy, infrastructure, agriculture and the environment – to name a few – should aim to improve people's quality of life today and in the longer term.

The King Baudouin Foundation is the strategic partner of the European Policy Centre

The Europe 2020 Strategy, a jobs and growth strategy set in 2010, made fighting climate change and energy sustainability one of its five targets and creating a resource-efficient Europe one of the seven flagship initiatives. It recognised that sustainable growth can only be achieved by moving towards a resource-efficient, low-carbon economy.

However, what emphasis the new European Commission will give to the 2020 Strategy and sustainability remains to be seen. Since it started its work at the end of 2014, there have been concerns that it is taking a more traditional approach to growth and marginalising environmental considerations in policy-making. Sustainability was added to Vice-President Timmermanns' portfolio only after a strong cry-out from stakeholders across Europe, and the jury is still out on whether this will translate into making sustainable development a real cross-sectoral objective.

There are increasing pressures on policy-makers to ensure a transition to a more sustainable economy. The benefits are already visible: the implementation of EU environmental and climate policies in recent decades has reduced pollution, improved nature protection and waste management, and delivered health benefits and economic opportunities. Furthermore, awareness of the risks of not acting is increasing at all levels of European society. However, more needs to be done. The implementation of existing policies remains a challenge across the EU. For example, while some member states struggle with air pollution levels, others lag behind in waste management. Indeed, the content and implementation of new proposals, such as the upcoming circular economy package, will be a test case for the future (see also below). Europeans already acknowledge their resource-dependency, but will the new proposal help reduce waste, improve recycling and keep valuable materials in Europe?

PROSPECTS

It is in the EU's interest to promote economic growth while preventing environmental degradation, climate change and inefficient use of natural resources. This requires moving from promoting policies in silos, at both the EU and national levels, to recognising their inter-linkages. The EU policy framework as a whole must provide a vision and guide member states and businesses to take appropriate action in the short-, medium- and long-term.

The internal market must become the basis for a more sustainable economy. The EU can use its tools, such as the financial instrument for research and innovation (Horizon 2020), energy policy, the digital single market and industrial policy to support the development and deployment of products and services that help to green Europe's economy. This should entail promoting new sustainable solutions, smarter use of resources at all stages of the production and consumption cycle, new business models and industrial restructuring. For example, the EU could encourage a collaborative economy by ensuring that the digital platforms that enable sharing assets like cars or washing machines as services, are regulated on EU-level as a part of the Single Market. Leading as an innovator in greener products and services, and fostering a market for these solutions, could enable the EU to become a global standard-setter, which would benefit industry and society as a whole.

The 7th Environment Action Programme, "Living well, within the limits of our planet" aims to guide the EU's **environmental policy** until 2020 and create a low-carbon society, a green, circular economy with resilient ecosystems, which should form the basis for citizens' well-being. This requires cross-border action and implementing measures beyond the environmental sector. For example, both climate change and air pollution can be tackled by reducing fossil fuel emissions from the energy, transport and housing sectors, resulting in economic, social and environmental benefits. Overall, wider European discussion is needed on putting a price on pollution. While the EU Emission Trading System (ETS) tries to do this, the European Semester and its country-specific recommendations must also be used to encourage member states to shift taxation from labour to pollution. Greater efforts to value and price natural resources, biodiversity and ecosystem services across the EU are needed.

A transition towards a circular economy makes sense environmentally and economically. According to the Ellen MacArthur Foundation, the transition would create new markets, jobs and products, boosting EU GDP by seven percentage points more than the current development path by 2030. It would reduce Europe's vulnerability in the face of the global resource challenge, allow Europeans to control materials better and create more value from their use. As the Commission works on a new proposal for a circular economy, to be published by the end of 2015, the objective should be to promote new economic thinking, a smarter use of resources and more sustainable production and consumption patterns. Creating less waste, reusing resources and materials across value chains, and producing quality recycled materials requires changes to product design, consumer behaviour, and business and market models. The transition requires collaboration between business and researchers, policy-makers and investors, and developing a market for reusing, refurbishing and recycling products and materials. Regulation must be coupled with

market-based instruments, support for innovation and incentives for change. The possibilities of using the Eco-design Directive, Extended Producer Responsibility, Green Public Procurement and EU funds for this aim must be explored.

The EU must use both sticks and carrots to maintain the momentum on the implementation of its **climate and energy policies**. Firstly, for the Energy Union to succeed, the member states, regions, businesses and citizens must be convinced of the benefits of working together. Secondly, the EU needs a single market for renewables which encourages cost-efficient investments and the development of smart grids. According to the World Economic Forum, a lack of cooperation across borders and investments in solar and wind in suboptimal places have already cost the EU around €126 billion (140 billion USD). Thirdly, existing commitments to increase energy efficiency and the share of renewables, and envisaged changes in future energy use must be better considered in policy-making and investment decisions. The Commission can influence these via targets, financial support and environmental regulation – and should use this role wisely. Lastly, it is essential that the climate and energy objectives become an integral part of the wider policy framework affecting areas like agriculture, transport and urban development, and contribute to reducing global emissions.

It is essential that the inter-linkages between the environment, climate and **health** are better acknowledged. Europe must promote healthier environments by reducing emissions and adapting our societies, including infrastructures and health systems, to the impacts of climate change. While the EU has developed a number of successful policies to improve air quality, as the European Parliament and Council are revising the air quality directive, the costs in human and economic terms should be remembered. As the Commission notes, the implementation cost of €2.2 billion a year should be balanced against the benefits worth €40 billion in better health, greater labour productivity and lower health costs.

Developing sustainable **transportation** systems requires looking at transport vehicles and ensuring that the fuels used, infrastructure, citizens' behaviour and ICT support the reduction of greenhouse gas emissions, air pollution and noise. The Volkswagen crisis is a wake-up call for the EU to adopt a comprehensive, effective approach to reducing all harmful transport emissions, including both CO_2 and air pollutants. This should lead to more reliable emission testing and replacing diesel with more sustainable alternatives.

The **agricultural sector** must improve its performance through more sustainable production methods. Meeting growing demands for food and resources while minimising environmental pressure requires using resources in a sustainable way. Farmers also have to contribute to climate change mitigation and adaptation efforts. As the Commission is looking into simplifying the Common Agriculture Policy (CAP), this must not undermine the proposed 'greening' measures. Post-2020, direct payments to farmers should be replaced by more outcome-oriented financing via rural development.

The EU should use its **foreign and external policy** tools to create momentum for action. As the world prepares for the UN Climate Change Conference in Paris in December 2015, the EU needs to demonstrate and communicate within and beyond the EU's borders the economic, social and environmental benefits that come from reducing greenhouse gas emissions and air pollution. Paris should create a momentum and G20 and APEC provide the fora for removing subsidies for fossil fuels.

The EU must also assist third countries in making their economies more sustainable, while taking the climate/environment/security/migration nexus better into account in foreign policy. For example, the EU enlargement process and European Neighbourhood Policy must be used to help partners to tackle environmental challenges by sharing experience on improving decision-making processes, providing technical advice and assistance, and collaborating on research projects.

The EU's **development policy** must take into account the inter-linkages between environmental, energy and agricultural sustainability, and human economic and social development. The "Global Public Goods and Challenges", a financial instrument designed to support inclusive sustainable development, could help the EU to achieve this objective while playing a key role in the implementation of the Sustainable Development Goals (SDGs). The agreed SDGs, including a goal for sustainable production and consumption, should guide the EU's external and internal policies. Furthermore, the negative impact of EU policies on the environment in developing countries should be monitored and addressed.

Trade can be used as a tool for sustainable development. The future EU trade strategy must be coherent and ambitious at bilateral, multilateral and global level, and integrate environmental and climate considerations. The EU should take a lead in advocating global liberalisation of trade in environmental goods and services, and promote

trade as a tool to mitigate climate change. For instance, it should aim to ensure that the "green goods initiative", aiming to eliminate trade barriers, will extend from the current 14 World Trade Organization members to all members. Moreover, the 'green' label should only be given to goods that have a positive impact on the environment. In parallel, the EU should encourage liberalisation of trade in environmental goods and services in all its future Free Trade Agreements and include Trade and Sustainable Development Chapters that promote sustainable management and use of natural resources, and stress the importance of climate change mitigation.

The transition towards a low carbon and resource-efficient economy could have a major positive impact on **employment**. Eco-industries have thrived despite the crisis and the Commission's 'Employment Package' from April 2012 identified the green economy as a key source of job creation, estimating that it could create 20 million new jobs by 2020. However, the transition would also see some jobs replaced or transformed and workers must be supported to adapt to these changes. Thus, it is important that the work under the Green Employment Initiative of July 2014, which proposed the coordination of labour market measures and tools across the EU, continues.

It should be noted that there is considerable **financial support** available for private and public sector actors in greening European economies. The European Structural and Investment Funds are now complemented by the European Fund for Strategic Investments, which aims to mobilise at least €315 billion in investments in areas like energy and resource efficiency in three years. As cities and regions are significant emitters and users of resources they can also play a key role in piloting new, greener solutions and approaches. They need to be incentivised to use existing funds for projects with a positive environmental impact, and the lack of administrative and technical capacity to implement projects must be addressed. The recently launched European Smart Specialisation Platform on energy, designed to help regions and member states make better use of funds for sustainable energy projects, is a positive development. The money is available – and it is for the actors at the national level to actively put forward project proposals that would foster decarbonisation, eco-innovation and the development of a greener, circular economy.

The transition to a sustainable economy must become a people's project. Mobilising citizens, the public and private sectors starts with evaluating and communicating the benefits of the suggested measures. The system should inspire people to make more sustainable choices the default option: encouraging people to walk or to cycle, to buy or use more energy- and resource-efficient solutions and services, and to consume energy and food in a smarter way, because it is cheaper and more convenient.

The EU needs to ensure that a transition to a sustainable economy becomes an overriding objective in policy-making, and that policies and tools are used, alone and together, to contribute to its achievement. Many of the measures suggested above will require systematic re-thinking and a buy-in from member states and other stakeholders. This will not be easy, but the rewards are numerous. The transition to a sustainable economy can be turned into a driver for competitiveness, help to save costs for society and create growth and jobs. The policy framework for action exists. It is time to put it into use.

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This Policy Brief builds on the event 'The European environment – state and outlook 2015' that the EPC organised with the European Environment Agency (EEA) in March 2015.

1 *The European Environment – state and outlook 2015* report is available on the website: www.eea.europa.eu/soer.

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