

European industry's views on
EU environmental policy-making
for sustainable development

Introduction	1
Sustainable development, a multi-faceted challenge for all citizens, companies and policy-makers	2
• The concept of sustainable development rightly stands at the top of the EU agenda	2
• Three key elements for solving environmental problems: the economy, environment policy and societal innovation	3
• Some basic figures about companies' contribution to environmental progress	4
Guiding principles for a new approach to environmental policy-making	5
• Achievement of the greatest possible environmental effectiveness for the total resources mobilised through public policies	5
1. <i>Select environmental objectives which genuinely have priority</i>	5
2. <i>Place technological innovation at the heart of environmental strategy</i>	5
• Quest for maximum economic efficiency in pursuit of individual environmental objectives	6
• Coherence between environmental objectives and the other objectives (economic, social, etc.) pursued by society	6
1. <i>General principle</i>	6
2. <i>Integration of EU environmental policy and other EU policies</i>	6
3. <i>Practical recommendations for developing environmental policies ensuring coherence between economic, social and environmental objectives</i> ..	7
a) Stakeholder consultation	
b) Ex-ante regulatory impact assessment	
c) Ex-post review and benchmark	
d) Economic and fiscal instruments as tools for environment policy and for the policy integration process	
e) Environmental agreements between business and public authorities	
Conclusions for future environmental policy-making	8

Sustainable development stands at the top of the EU agenda, and rightly so. The concept is defined as "... development that meets the needs of the present without compromising the ability of future generations to meet their own needs". The challenge is to turn this objective into aims and day-to-day actions shared by people, citizens, policy-makers, companies and organisations across the board.

Fresh approaches are necessary to integrate economic, societal and environmental concerns better in environmental policy-making. New working methods, which are already known in theory, now have to be translated into policy practice. Other innovative management approaches still have to be invented.

This UNICE manifesto makes suggestions on some of these policy-making methods, in particular on innovation, impact assessment, multi-stakeholder dialogues and partnerships, and integration of environmental policy with other policies.

A linear continuation of the conventional "command and control" approach appears inappropriate to tackle major environmental challenges such as climate change, in all their complexity. Rather, what is urgently needed is development of an unprecedented level of cooperation between all stakeholders.

Companies have always played a major role for improvements in environmental performance and they will remain the primary source for innovation required by the concept of sustainable development. Alongside the technological perspective and achievements in industrial production using less energy, raw materials and natural resources and with less harmful emissions than in the past, environmental management capacity has grown significantly, as demonstrated by a shift of responsibility to board level in many companies. This document gives public authorities pointers on how to encourage and support companies' continuing efforts.

I hope that these proposals will give new momentum to ongoing sectoral, national and European discussions. Further, I hope that it will improve understanding of how crucial the strengthening of EU business competitiveness is for promotion of environmental progress and sustainable development in the EU and worldwide.



Baron Jacobs
President of UNICE

The concept of sustainable development rightly stands at the top of the EU agenda

The Brundtland Commission's 1987 report "Our common future" defines sustainable development as:

"... development that meets the needs of the present without compromising the ability of future generations to meet their own needs".

This definition immediately makes it clear that the objective of sustainable development encompasses a large number of tasks, for instance:

1. in the economic area

- long-term creation of the wealth needed to meet the aspirations of individuals and the collective needs of society
- promotion of market economy and fostering entrepreneurship

2. in the social area in the wide sense

- promotion of employment
- improvement of health
- reduction of poverty
- development of improved forms of governance, taking account of equity issues
- management of new challenges arising from the ageing population (how to finance pensions, etc.)

3. in the areas of environmental protection and resource management

- control of emissions to achieve environmental quality in line with health requirements and the carrying capacity of ecological systems
- improvement of environmental performance of products throughout their lifecycle
- greater efficiency of natural resource use, in particular promotion of renewable resources
- increasing awareness through education and communication among citizens of the impact of behaviours and lifestyles.

Sustainable development must therefore be built around three major interlinked "pillars": economic, social, and environmental.



Sustainable development is a process in which the three objectives - which can be mutually reinforcing - are addressed on an equal footing. Actions which fail to take account of the need for a harmonious balance between the three areas may undermine the system as a whole, even if progress is made in one particular area. Implementation of sustainable development requires a consensus-based decision-making process involving all parties concerned.

UNICE and its member federations are committed to this fundamental idea of sustainable development and are taking on the economic, social and ecological challenges to meet a global contract across the generations.

The importance of the three pillars emerges clearly from the Amsterdam Treaty: its article 2 recognises promotion of harmonious, balanced and sustainable development of economic activities as a main task of the European Community, together with the promotion of a high level of employment and social protection, a high degree of competitiveness, a high level of protection and improvement of the quality of the environment and a rising standard of living and quality of life.

Three key elements for solving environmental problems: the economy, environment policy and societal innovation

In order to meet environmental challenges, it is increasingly necessary to act simultaneously on the levers of the economy, environment policy and innovation in everything concerning life in society.

This can be illustrated by the challenge of controlling emissions of carbon dioxide, in order to prevent climate change, which calls for carefully coordinated progress at several levels, including:

1. at societal level:

- an adjustment of values and individual lifestyles with a view to careful energy management
- local authorities' plans for sustainable mobility; integration of mobility aspects in urban planning policy

2. at environmental policy level:

- promotion of the energy efficiency of products
- promotion of cost-effective reduction of carbon dioxide emissions via establishment of flexible mechanisms (emissions trading, joint implementation, etc.)

3. at economic policy level:

- creation of framework conditions favouring technological innovation in the areas of rational energy use and low carbon energies
- measures which ensure that the economic system can generate the considerable financial resources required for investments to control carbon dioxide emissions.

In this regard, it is essential to realise that the environmental investment potential:

- by private consumers (e.g. purchase of low-energy vehicles, expenditure on insulation)

- by companies (e.g. investments in more energy-efficient production processes)
- by public authorities (e.g. investment in more efficient public transport systems)

depends to a very large extent on the competitiveness and profitability of the European manufacturing sector, which influences:

- budgets for investments by the manufacturing sector
- the level of activity in the services sector, and therefore that sector's budgets for environmental investments
- budgets for investments by the public sector (financed in part by levies on companies)
- investment budgets of workers in the private sector (which are a function of the wages paid by companies)
- investment budgets of workers in the public sector (whose pay is influenced by the levies collected from companies).

The challenge of climate change also illustrates clearly the increasingly frequent need to address environmental problems in the framework of effective international cooperation. The USA and Europe, which respectively contribute 25% and 14% to global emissions of greenhouse gases, must play the role of engine in this cooperation. Similarly, engaging developing countries in the process of responding to climate change is an essential part of delivering an effective long-term global solution.

Some basic figures about companies' contribution to environmental progress

In order to develop policies which encourage companies in their environmental efforts as effectively as possible, it is useful to give a number of pointers as to the present scope and dynamics of these efforts.

In the framework of traditional regulation and on their own initiative, actions by companies (innovations, investments, etc.) have been a decisive source for making progress towards environmental improvements⁽¹⁾ :

- In OECD manufacturing production from 1980 to 1995 increased by 36%, while polluting air emission decreased. This varied from a 7% reduction for nitrogen oxide to a 58% reduction in particulates.
- Sulphur dioxide emissions in Europe were reduced considerably, by approximately 50% over the period 1980-1996.
- Production and emissions of ozone-depleting substances decreased sharply; production of chlorofluorocarbons had declined by 1996 to about 7% of its maximum level at the end of the 1980s.
- Successful abatement of point-source discharges to rivers e.g. organic matter discharges, have fallen by 50 to 80% over the last 15 years.
- Overall, resource efficiency has improved by about 2 percent per year in industrialised countries since 1970.
- The European Commission estimates that spontaneous initiatives by companies will reduce greenhouse gas emissions by 9.4% in absolute terms between 1990 and 2010, against the background of increasing industrial production. Some sectors will

achieve (or are prepared to achieve) significantly higher reductions (as much as 30%) on the basis of effective agreements between industry and public authorities. Furthermore, thanks to technological innovation, actual or projected energy efficiency gains and carbon savings are very significant at the level of products⁽²⁾.

In-depth studies have highlighted that a substantial portion of environmental progress is due to initiatives by companies seeking to achieve a higher level of environmental protection than that required by national environmental legislation (proactive environmental strategies)⁽³⁾.

These studies demonstrate that the motivation for these proactive environmental strategies derives above all from:

- pressure exerted by company shareholders
- to a lesser degree, pressure exerted by other company stakeholders
- managers' perception that proactive environmental strategies may give rise to competitive advantages.

It can therefore be pointed out in passing that development of ever more stringent national legislation should not be contemplated as an effective approach for encouraging companies to devise proactive environmental strategies. Moreover, great caution is needed with the argument that stringent environmental regulation at home can offer home producers a competitive edge as first-movers in international markets.

(1) Examples are taken from the European Environment Agency Assessment Report No 2 (1999) and the OECD Environmental Data Compendium (1999)

(2) See in particular "Climate change: how governments and industry can work together", European Round Table (ERT) report, 2000.

(3) See in particular "Environmental policy and corporate strategy in a small open economy", K. Buysse, A. Verbeke and C. Coeck; in D. Van Den Bucke and A. Verbeke (2000). *Globalisation and the small open economy*, Chapter 4, Cheltenham; Edward Elgar.

Guiding principles for a new approach to environmental policy-making

For UNICE, development of an environmental policy geared to sustainable development must create a context that encourages initiatives by companies for environmental protection and must be organised on the basis of the following three fundamental principles:

- ensuring the greatest possible environmental effectiveness for the total resources mobilised through public policies

- promoting a quest for maximum economic efficiency (implementation of individual environmental objectives at the lowest cost)
- ensuring coherence between environmental objectives and the other objectives (economic, social, etc.) pursued by society.

Achievement of the greatest possible environmental effectiveness for the total resources mobilised through public policies

UNICE sees two major requirements in order for this objective to be met:

1. *Select environmental objectives which genuinely have priority*
2. *Place technological innovation at the heart of environmental strategy*

Environmental objectives compete for scarce economic resources and also to a growing extent among themselves, since investing financial resources and manpower in one given activity means not investing in another (opportunity cost).

It is necessary to concentrate efforts on carefully chosen priority environmental objectives. The available limited financial resources should be distributed to achieve the highest possible benefit for the population and minimise the overall risk for society. UNICE hopes that the discussions currently under way on the 6th Environmental Action Programme will focus on this objective. Setting priorities requires a shared understanding of the desired environmental quality of all active players in society involved in a genuine multistakeholder dialogue.

Themes for environmental action and the corresponding targets must be set on the basis of sound science and objective risk assessment.

As a general rule, the existing approach for setting environmental objectives requires companies to make continual *incremental* adjustments to their products and production processes, according to very prescriptive regulations. This results in a situation of constantly moving targets which obliges industry to invest in "stop-gap" measures.

In reality, what is needed to move towards the objective of sustainable development is not successive incremental adjustments but a thorough *rethink* of processes/products, involving radical technological innovation. To promote such innovation, it is necessary to set stable and clear environmental objectives for the long term, accompanied by a predictable and supportive policy framework.

Quest for maximum economic efficiency in pursuit of individual environmental objectives

The variety of instruments available for pursuit of environmental objectives is much greater than might be imagined. These include:

- instruments to support autonomous action by players:
 - development of information for consumers
 - education programmes (for consumers and professionals)
 - encouragement to implement efficient environmental management systems like ISO 14000 series and EMAS
 - support for technological innovation
- regulations
- economic and fiscal instruments.

Maximum use of instruments to support autonomous action by players is essential given that companies' own initiatives (i.e. not inspired by regulation) remain the principal source of progress in many environmental areas.

For a given environmental objective, it is important to review the panoply of instruments with a view to identifying the instrument mix with the lowest cost.

Environmental regulation should be confined to the setting of minimum standards, leaving industry the freedom to find the best and most cost-effective means of achieving them.

This search for maximum economic efficiency presupposes transparent production of the appropriate cost-benefit and impact studies.

Coherence between environmental objectives and the other objectives (economic, social, etc.) pursued by society

1. General principle

Once the economic efficiency analyses have delivered a minimum-cost solution, it is still important to verify that this cost is compatible with the full range of economic, social and environmental objectives that society wants to be met by the companies concerned.

2. Integration of EU environmental policy and other EU policies

The Amsterdam Treaty contains an important article regarding integration of environment in various sectoral policies such as energy policy, transport policy, industrial policy, etc (Art. 6). UNICE supports this principle of integration but underlines that it should not be envisaged as a one-way process.

In UNICE's view, the integration process must take due consideration of the three pillars of sustainable development, and in particular the requirement of strengthened competitiveness,

given the critical importance of the latter for sustainable development (see page 3).

Increasingly often, it will only be possible to combine economic progress and environmental progress if the necessary political courage is shown to carry through certain fundamental structural reforms.

By way of example, according to various sources, a dynamic liberalisation policy could reduce the costs of rail transport by 40%. In the goods sector, that would mean potential savings for companies of EUR 4.6 billion. Such cost reductions and a more commercial approach encouraged by liberalisation, combined with technological innovations, would bring about a reduction in energy consumption in the transport sector. Liberalisation would also foster development of new logistical concepts, making it possible to make more intensive use of rail infrastructures. The result would be less pressure on road infrastructures.

3. Practical recommendations for developing environmental policies ensuring coherence between economic, social and environmental objectives

a) Stakeholder consultation

Dialogue, close cooperation and new forms of partnership between policy-makers and stakeholders are the best way to achieve better policy-making. A systematic, timely, comprehensive and transparent consultation mechanism should become a standard step in policy development. The objective should be to ensure an open, well-documented debate with all parties concerned, to understand, evaluate and, if necessary, modify the implicit weighting in public action between economic, social and environmental objectives.

b) Ex-ante regulatory impact assessment

In this context, UNICE urges that any new policy initiative should be subject to a systematic impact assessment that takes an integrated perspective, in which:

- i) shifts of benefits from one medium (air, water, soil) or from one product life-cycle stage at the expense of another are identified and discussed;
- ii) implications for the other two pillars of sustainable development, namely economic and social issues, the trade-offs, are made transparent and evaluated. In this context, the cumulative effects on small and medium sized enterprises and employment have to be addressed.

UNICE supports the idea that supervision of the system should be dealt with at the highest level of public authorities in an independent manner.

c) Ex-post review and benchmark

Future application of existing instruments could be improved by establishing benchmarks in order to pinpoint best practice in terms of efficiency and effectiveness of instruments, measures and tools. Such an ex-post analysis should include an

assessment of the role of institutions (e.g. European Environment Agency) and effectiveness of monitoring and review mechanisms (this includes verification of the consistency of data collection).

d) Economic and fiscal instruments as tools for environment policy and for the policy integration process

UNICE is willing to help assess well thought-out plans for economic instruments (tradable permits, fiscal incentives, differentiated taxation, charges, etc.) capable of offering companies greater flexibility and reducing the cost of environmental protection measures. For these instruments, the test of economic efficiency means rigorous prior verification of the following two elements:

- Existence of transparent objectives: economic instruments should target clear environmental objectives and give clear market signals. Ecological taxes should not degenerate into simply a way of collecting additional budget resources without any marked benefit to the environment.
- Environmental effectiveness: the possibility of moving closer to the environmental objective in view, using the chosen instrument, must be plausible.

e) Environmental agreements between business and public authorities

To date, more than 300 environmental agreements have been concluded, ranging from unilateral self-commitments recognised by public authorities to contracts between industry and public authorities. Agreements offer significant advantages: they make it possible to deliver commitments quickly and efficiently; they allow a company maximum flexibility for how its commitments will be met; they can be part of a predictable policy framework to aid planning and investment by companies⁽⁴⁾.

(4) See in particular "Climate-change-related long-term agreements: a practical complement to regulation", a UNICE contribution (February 2001).

Conclusions for future environmental policy-making

1. Companies based in Europe already make a very active contribution to environmental progress, in particular through spontaneous initiatives which go beyond what is required by national legislators (proactive initiatives in the areas of technological innovation, environmental management, investment, multi-stakeholder partnerships, etc.).

These proactive initiatives will play an increasingly important role for the environment because they can often generate much greater progress than classical environmental legislation.

To encourage these proactive initiatives, it is important that EU and national policy-makers:

- ensure competitiveness and the well functioning of the economy
- facilitate the organisation of multi-stakeholder dialogues which help to clarify the hierarchy of environmental objectives, share out responsibilities between all players concerned and put in place multi-stakeholder partnerships as and when appropriate.

2. In particular cases where legislation continues to be the most appropriate instrument, it is essential that it be developed with the closest attention to the fundamental principles of:

- environmental effectiveness
- economic efficiency
- coherence between environmental objectives and the other objectives (economic, social, etc.) pursued by society.

3. Observation of economic reality makes it clear that more and more enterprises or regions find themselves tied up in a web of unfavourable elements such as:

- public measures or regulatory proposals which pay too little attention to the criteria of environmental effectiveness and economic efficiency
- lack of coherence between economic, social and environmental objectives. This lack of coherence can be seen in:

- development of an excessive number of simultaneous environmental initiatives without consideration of their cumulative effects
- setting of ambitious environmental objectives whereas companies must compete with third countries where environmental standards are less rigorous
- setting of ambitious environmental objectives while making excessively slow progress in regulatory reforms (e.g. of energy, transport and telecommunications markets) needed to place companies in the best possible conditions for coming to grips with international competition, increasing their cash flow and investing in environmental technologies.

Failure to apply the three above-mentioned fundamental principles can have a very negative influence on the profitability of the companies concerned as compared with their European and non-European competitors, and have consequences ranging from a deceleration in companies' proactive environmental contributions to - in the most serious cases - complete cessation of their activities, with all the associated economic and social consequences.

Society cannot close its eyes to the heavy economic, social and/or environmental toll to be paid when environmental progress is sought without consideration being given to the complex interactions which occur in the sustainable development process.

As already pointed out earlier in this report, new planning, work and cooperation models make it possible to avoid flagrant contradictions between the economic, social and environmental objectives pursued by society. UNICE urgently appeals to all national and European policy-makers to draw inspiration from these new models, and confirms the willingness of its members to intensify their contribution to development of new approaches.

UNICE is

*** the official voice of European Business and Industry vis-à-vis the EU institutions
* composed of 33 central industry and employers' federations from 26 European countries**

Further information about UNICE and its member federations can be found on
our website: www.unice.org.

Introduction	1
Sustainable development, a multi-faceted challenge for all citizens, companies and policy-makers	2
• The concept of sustainable development rightly stands at the top of the EU agenda	2
• Three key elements for solving environmental problems: the economy, environment policy and societal innovation	3
• Some basic figures about companies' contribution to environmental progress	4
Guiding principles for a new approach to environmental policy-making	5
• Achievement of the greatest possible environmental effectiveness for the total resources mobilised through public policies	5
1. <i>Select environmental objectives which genuinely have priority</i>	5
2. <i>Place technological innovation at the heart of environmental strategy</i>	5
• Quest for maximum economic efficiency in pursuit of individual environmental objectives	6
• Coherence between environmental objectives and the other objectives (economic, social, etc.) pursued by society	6
1. <i>General principle</i>	6
2. <i>Integration of EU environmental policy and other EU policies</i>	6
3. <i>Practical recommendations for developing environmental policies ensuring coherence between economic, social and environmental objectives</i> ..	7
a) Stakeholder consultation	
b) Ex-ante regulatory impact assessment	
c) Ex-post review and benchmark	
d) Economic and fiscal instruments as tools for environment policy and for the policy integration process	
e) Environmental agreements between business and public authorities	
Conclusions for future environmental policy-making	8