

# FOURTH REPORT OF THE HIGH LEVEL GROUP ON COMPETITIVENESS, ENERGY AND THE ENVIRONMENT

## CONTRIBUTING TO AN INTEGRATED APPROACH ON COMPETITIVENESS, ENERGY AND THE ENVIRONMENT POLICIES

### Ensuring future sustainability and competitiveness of European enterprises in a carbon and resource constrained world

#### D) Introduction

1. In light of pressing need for action, set out in the Climate and Energy Package, the High Level Group has considered the **conditions** needed for EU business to **adapt swiftly** to a low carbon emitting future while remaining competitive. The group also looked at the sustainability aspects of EU resource policies. The business model of the future will have to place greater emphasis on carbon emissions, energy efficiency of business operations, as well as on the associated impacts of the products or services provided. A smooth **transition** will be possible with policies that recognise business as part of the solution and create the right incentives, enabling EU industry to adapt and remain competitive globally. From a business perspective this is largely about ensuring that there are effective supply side measures coupled with the market conditions that create demand for more efficient goods and services. If the policies are right and delivered in conjunction with international action on climate change this will create large **global markets** for more efficient goods and services providing EU industry with opportunity to capture sizable markets.
2. Globalisation is radically reshaping economies; Russia, China, India, other Asian regions and South America are playing an increasing role in shaping **raw material supply and demand**, and will continue to do so in the future. The growing global economy is putting significant strain on the availability of materials and raises questions over cost, security and diversity of feedstock supplies of, both raw and secondary materials, for the EU manufacturing industries. At the same time, the current patterns of production and use of natural resources lead to significant environmental challenges and exceeding the planet's carrying capacity. Globally decoupling between economic growth and materials and energy consumption has not been achieved, the picture looks more favourable within Europe, where relative domestic resource consumption has gone down; however this is complemented by increased imports limiting the overall improvement in the EU ecological footprint. As such, efficiency is a central aspect in **resource policy**. All these factors make clear that the issue of natural resources, secondary materials and waste is crucial for the competitiveness of EU industry, and environment and energy policies.
3. It is the HLG's role with its integrated approach to competitiveness, energy and environment policies to identify the links and actions that bring addressing climate change, resources use and future industrial competitiveness together. More **efficient use of resources** and where appropriate greater use of secondary raw materials contribute to increasing energy efficiency, in particular for energy intensive industries (EIIs). The HLG welcomes the work done in this area during past Presidencies such as the Clean, Clever and Competitive initiative during the Dutch Presidency of the EU. There is therefore a strong link between sustainable resources use and delivering a low carbon future. Pursuing a global approach to sustainable development is of utmost importance as it would offer a **triple-win**:
  - a. It would generate global demand for efficient **products**, technologies and services;

- b. It would generate a level playing field for **companies** competing in international markets (e.g. energy intensive industries); and
  - c. It would result in true environmental, social and economic **improvements**.
4. To address climate change and resource use, the solution lies in **coupling** effective supply side market measures with the market conditions that create demand for more sustainable technologies, products and services. Existing requirements on production or resource extraction should be complemented by measures that create market conditions where consumers demand these more sustainable goods. In short, ‘markets will need to reward best performers’, driving innovation in more sustainable products and services. A new policy aimed at promoting lead markets is needed. In this context, the “**lead markets concept**” is about creating conducive market conditions through a set of integrated measures to speed up development and deployment of systems, technologies and products that will help address public policy objectives of climate change and sustainable resource use through actions like energy and resource efficiency. The priority given to lead markets will enable the rapid mastering of technologies and their economies of scale, creating first mover advantage for EU industry or products essential in low carbon economies. Examples of lead markets and their potential products could include low energy housing (e.g. heat pumps, insulation products, ICT systems); energy efficiency in industry (e.g. boilers, electric motors); low carbon emitting power generation (e.g. wind, solar, second generation bio-fuels, biomass gasification); and low emission cars (e.g. energy efficient motors, bio-fuel, tyres, hybrid technologies). Additionally, technology breakthroughs, (e.g. carbon capture and storage (CCS), 4<sup>th</sup> generation nuclear<sup>1</sup>, hydrogen cars) should be promoted. For CCS, in particular, adequate funding should be provided. The lead market concept has to **align** with potential European industrial strengths where the EU may be positioned to lead worldwide markets and increase industrial competitiveness. The measures must be designed to accelerate deployment leading to market acceptability of the technology and rapid economies of scale.
5. Areas for **urgent action** include:
- a. The **single market** is one of EU’s key assets. Setting **minimum requirements** for end-products enhances performance with little or no international competitiveness distortions. This is, for example, the case with the eco-design of energy using products (EuP) Directive. A similar approach could also be developed in other product areas where contributions to CO<sub>2</sub> reductions or resource efficiency are significant.
  - b. Coupled with the European **product policy**, Europe’s standardisation system is an important regulatory compliance tool. In future this system will need to be an even more efficient driver for innovation and market development continuing the move from compliance to a competitiveness and sustainability tool. Lead standards (advanced voluntary specifications) coupled with the existing mandatory minimum requirements and correct market incentives to drive either product or industrial process performance upward, could enhance industrial competitiveness and contribute to sustainability. This two tier system should be dynamic, pulling up performance as technology evolves and must be flexible so as to integrate innovation breakthroughs as they occur. European **standards policy** will need to be strategically aligned to innovation and sustainability policies. A new standardisation approach is required based on the following **principles**:
    - i. Coupling minimum performance requirements with more ambitious lead standards for products; the standards should be based on a lifecycle perspective

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<sup>1</sup> Several HLG members consider that 4<sup>th</sup> generation nuclear should not qualify as technology breakthrough to be promoted

- ii. Predictable evolution overtime, in line with investment cycles;
  - iii. With in built flexibility so that innovations that enable new ways of delivering better performance are equally stimulated;
  - iv. Effective information dissemination and consumer labelling systems;
  - v. Involvement of stakeholders on developing lead market advantages;
- c. For industrial processes a similar approach could apply: in the industrial emissions legislation, sectoral emission limit values could play the role of minimum requirements, while implementation of the Best Available Techniques (BATs), as described in the BAT reference documents (BREFs), including emerging techniques, would foster the diffusion of environmental technologies.
- d. Markets will need to reward best performers **driving innovation** in more sustainable products and services, the incentives will need to be geared towards either consumer or business markets.

*For consumer markets*

1. The dynamic lead standard and its corresponding minimum requirements need to be complemented by a **labelling** requirement classifying performance of goods relative to the lead standard and the minimum requirements. This should make clear to the consumer the performance of the good and could be modelled on existing energy labelling system. It is also important that this labelling scheme is backed by effective enforcement and consumer awareness campaigns;
2. Fiscal and financial **incentives** both positive and negative could stimulate more sustainable purchasing decisions, in line with state aid rules.

*For business markets*

3. Public procurement could be geared towards stimulating market development for key products belonging to lead markets. . For this to happen common priorities and approaches for green **public procurement** have to be developed and agreed between national procurement agencies, this would demand the establishment of a EU level coordination mechanism;
  4. There is also opportunity for those businesses that see sustainability as one of their core values, through industry developed **procurement codes** to demand these more sustainable products;
  5. Greener products, technologies and services need to be available at affordable prices. Time bound **incentives** may be needed to speed up retro-fitting of installations and replacement of less efficient machinery in line with environmental state aid rules. Short term tax incentives could be used to phase out inefficient goods and encourage their substitutes.
- e. There could be merit in EU harmonised support mechanism to accelerate deployment of **renewable energy technologies** in order to help deliver the EU renewable target with least cost to the economy. In addition to this the feasibility of developing an EU level system for white certificates that will drive investment in energy efficiency at national level and possibly similar schemes for **resource and material efficiency** in the future should be explored.
- f. Access to **industrial feedstock**, preferably at world market prices, be it primary materials, secondary materials or waste is best achieved through the promotion of sustainable global markets and their undistorted operation in line with Commission Communication “A Global Europe”. Policy developments in this area should therefore primarily aim at combating any possible measures that might undermine the functioning of the market and create discriminatory access arrangements, while also fully integrating the environmental and social

dimensions. This should also address the issue of global free movements of end-of-life products and waste. The EU should use multilateral and bilateral **trade agreements** to remove obstacle to the proper functioning of global resource markets, while working both bilaterally and multilaterally towards more sustainable solutions. The World Trade Organisation (WTO) Doha Development Agenda (DDA) negotiations should result in the abolition of trade-distortive export and import taxes, and double pricing policies, for raw materials. Taking into consideration the current EU agriculture policy and its likely developments, this access to industrial feedstock, where possible at world market prices, should also be reflected in the EU domestic customs and trade policy.

- g. With ever competing demand for raw materials, careful thinking is required about how to use these resources in a way that does not increase the pressures on the environment whilst adding most value to the economy. There is a need to ensure the markets for natural resources function properly, where support mechanisms exist, as with bio-fuel, they should **compensate for externalities** but not beyond, so as to avoid market distortion.
- h. There is a significant potential to improve the EU's **materials efficiency** through the better use of the resources embedded in waste. As recycled and re-use volumes increase, economies of scale become possible and this will result in economic opportunities for recovered materials as well as in environmental improvements. Exploiting the material content of waste could be further encouraged by improving the economic and environmental conditions of the EU **recycling and re-use market**, notably by further developing EU and international standards for recycled materials, and by intensifying the support of research and technological development in the waste recycling field considering the long-standing collection systems and incentives for investment. Another important contribution would come from further harmonising the implementation of existing EU waste legislation, including trans-boundary shipments of end-of-life goods and waste.
- i. Taxation systems reforms and other policy instruments should be designed carefully to ensure **resource productivity** and efficiency gains while avoiding possible relocations that would displace the EU ecological footprint outside the EU

## II) Recommendations

The HLG reiterates its strong support for the crucial benefits derived from the single market and the strong competition rules that apply within it.

### **Fighting climate change, improving the competitiveness of enterprises in Europe and delivering global markets for low carbon goods (win-win-win)**

1. The HLG calls on the EU to enhance its **product policy** as a competitiveness and sustainability tool. In this context a more strategic approach to standards' use is required to stimulate innovation towards sustainability. This should include, where appropriate, coupling minimum requirements with lead voluntary standards (developed by standardisation bodies) both evolving in parallel to pull up performance; this standards approach should be applied in a way that addresses the specificities of both consumer and business market. It should be accompanied by incentives, labelling systems for consumer products classifying the products performance relative to the standards and public or private procurement practices to create critical mass for business markets. This more strategic approach should be developed in cooperation with industry and cater for the needs of SMEs and ensure that they are appropriately involved in the process.
2. The HLG calls on the Commission to ensure that the **concept of lead market** is used as a tool to create competitive advantage for EU industry in global markets. This demands integration

and consistency between addressing climate change as a policy priority and research, innovation and single market policies as delivery mechanisms. The Commission and Member States should, as a matter of urgency, identify lead markets where the EU can foster competition, investment and innovation, and put in place the framework conditions to create industrial and technological strengths, as well as develop the necessary instruments and drivers.

3. The EU and Member States should develop a more integrated approach to **creating market conditions**/ demand for products and services relevant to these lead markets and meeting the lead standards. This could include effective procurement policies, support schemes (e.g. tax credits or rebates to consumers in line with state aid rules), and information to purchasers (intermediate/business or final consumers):

- a) Member States should use the flexibility offered by the existing **public procurement Directives** to increase demand and create critical mass for lead market products, as a matter of priority. The Commission should strengthen EU coordination to exchange best practices, in particular between national procurement agencies, to develop and define common priorities and approaches to promoting public procurement for lead markets.

- b) The Commission and the Member States should make more dynamic and effective the **consumer labelling** system for energy using products in consultation with stakeholders; classifying their performance with reference to minimum and lead standards; and implementing effective market surveillance measures, and should launch targeted consumer awareness campaigns.

- c) The Commission should assess and explore the feasibility of developing a system of white **certificates**, particularly for the household sector, to promote energy efficiency investments across the EU, while keeping administrative burdens to a minimum.

- d) The HLG calls on industry, SME organisations and NGOs to develop **codes of conduct** for sustainable private sector procurement laying down the requirements (e.g. based on benchmark for materials) that procured goods would need to meet, and linking the use of most sustainable feed materials (benchmarks in e.g. steel and cement) in production to the end goods (e. g. car, house) for which consumer demand can be generated.

- e) Develop stronger incentives notably through more competitive end-user markets and stimulate public-private partnerships (PPPs), inter alia through Structural Funds to deliver leading edge (lighthouse) demonstration projects.

#### **Moving towards more resource efficient production and more sustainable resource use globally**

4. The HLG calls on the EU and Member States to support the development of a **raw materials policy**, built on a well operating free and fair global market for raw materials and taking account of the EU strategy on sustainable resource use and the work of the related International Panel. This should be achieved by:

- a) Using trade policy in particular **international** multilateral and bilateral **agreements** to ensure that EU and third countries support open and undistorted markets, thereby promoting the security and diversity of feedstock supplies at world market prices to EU manufacturing;

b) Ensuring, without prejudice to pricing in a free and competitive market, **consistency** between secure access, optimal use of resources with respect to value added (e.g. biomass), advanced waste treatment technologies and waste related environmental policies. In particular, support mechanisms that divert resources from a high value added use to a lower one should be avoided;

c) Simplifying and streamlining **access to domestic raw materials**, in particular as regards speeding up the permitting process to achieve a one-stop shop without weakening existing environmental regulations and standards;

d) Improving the EU's **resources efficiency** through the better use of resources embedded in waste, while ensuring optimal choices amongst intensified collection, advanced recycling technologies, minimum standards, and eco-design approaches;

e) **Opening up the EU market** for renewable raw materials to facilitate access to industrial feedstock, preferably at world market prices, while taking account of the EU agriculture policy and its future developments.

5. This policy should be backed by measures to ensure that, without closing markets, while fully respecting and implementing the Basel Convention, secondary materials and waste leaving the EU is treated to the **same standards** as in the EU, in particular through the application of certification schemes, and international best practices for transparency and traceability purposes to trans-boundary shipments outside the EU.

### III) Outlook

6. The HLG in its remaining period will focus on the following issues:

- **International action on climate change.** This will focus on identifying international responses from industry and NGOs on climate change, as well as ideas on how ETS could be linked or extended into a global system;
- **Better regulation and competitiveness.** This will look at how better regulation in these sectors could help efficient delivery of economic, social and environmental objectives.

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