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New policy approach towards sustainable industries UNICE's concept

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ABSTRACT

Business and industry are committed to the environment and to progress towards sustainable development. One of the keys to a better environmental performance is energy efficiency. Industrial economies have made considerable progress in this area. Industries have reduced pollutant emissions substantially despite higher levels of production.

Citizens, too, are worried about the environment, although this is not always reflected in individual behaviour. The rise in consumerism is the greatest challenge facing the environment. As developing countries become richer, pressure on finite natural resources is set to increase. As a major source of environmental impact, the household has to be placed in the centre of considerations.

Technological progress and economic growth must be harnessed to achieve sustainable development. An overall environmental policy framework in which challenges are prioritised should replace today's "command and control" approach. There is a need for simple, realistic and enforceable regulation.

We must accept that the environment is not an absolute value and start looking at the costs of environmental care. Impact assessment should be carried out also taking account of the effects on SMEs and employment.

Responsibility for the environment should be shared as widely as possible. Consumers have to be encouraged to behave in an environmentally more responsible manner. Good education and product information can help to influence consumer behaviour, which in turn can help to steer processes and products in a more ecologically sound direction.

A new way of policy-making is required with agreed objectives, a coherent approach, efficient and effective measures and multi-stakeholder dialogue. Industry and business want to make a key contribution to such integrated and sustainable development of economic activities as partners with other stakeholders.

INTRODUCTION

The 1998 Aalborg conference concluded that business and industry have a general environmental commitment, demonstrated by a willingness to play an active role towards sustainable development and a shift of responsibility to the highest management levels. At that time open and frank dialogue had only just begun. Today we are a step further but the major challenges are still the same, and are still ahead of us: to gain trust in information provided by industry, to enhance participation of all actors involved, to close the gap between frontrunners and latecomers, in particular to facilitate good environmental performance by SMEs, and to foster investment in green technologies.

Where do we stand today in comparison with 1998? Environmental awareness continues to increase among politicians, in the business community and in society at large. Sustainable development is now an objective of the EU Treaty. Scientific research is also constantly refining our perception of the risks we face. But it is also an ineluctable fact that consumerism marches forward as prosperity grows in the industrialised world and in many parts of the developing world. This inevitably places increasing pressure on a whole range of finite resources, thereby underlining the urgent need to move towards sustainable development which enshrines the efficient use of resources. And that requires a coherent policy framework which is based on the widest possible consensus.

SITUATION ON POLITICAL, SOCIAL AND BUSINESS LEVEL

The political background to environment policy in the EU has changed significantly in recent years. The greens are no longer outside the parliamentary process. They now form part of governing coalitions in six EU countries, including three of its largest members (France, Germany and Italy). Together, these countries are sufficient to deliver a qualified majority on almost all issues. This development also means that green politicians can no longer behave as if they belong to a single-issue pressure group, and that they have assumed wider responsibilities in employment, foreign affairs and other major policy areas. This greater degree of policy integration is taking place at national level but is not yet in evidence at EU level. As for politicians, the problem today is how to integrate sustainable development into the aims and day-to-day actions of people, citizens and organisations across the board.

The European Commission's 1999 Eurobarometer about Europeans' attitude to the environment reveals that citizens are most troubled by things which have a direct effect on their quality of life. One out of two Europeans is worried about damage to the environment but this worry takes sixth place among their chief concerns – after violence, health problems, unemployment, poverty and drugs. Seven out of ten Europeans believe that environmental protection and combating pollution represents an immediate and urgent problem. This feeling increases with educational level and income. On average, 53% said that they knew enough to help protect the environment in their everyday lives. But willingness to pay more for greener products is limited to a maximum premium of 10%.

Living standards have risen out of all recognition over the last 50 years. As welfare rises, there are shifts in the hierarchy of concerns. Once survival has been secured, the qualitative aspects of life become relatively more important. Health problems such as AIDS, cancer, epidemics and so on are an immediate worry of 66% of European citizens. But European citizens have a rather schizophrenic attitude to risk. They demand that government and

institutional bodies provide 100% protection in some areas (e.g. food, GMOs, pesticide residues) and yet want to be free to choose and exercise their own discretion in other areas (e.g. smoking, drinking, driving). There is a preoccupation with health as demonstrated by food scares such as BSE and dioxin, also if the latter, for example, did not result in a single mortality whereas thousands of citizens die on the roads each year, a statistic which people seem to accept. Preoccupation with health is likely to remain as the population ages and longevity rises, and is expected to become a key political issue among voters.

Over the past two decades, the economies of OECD countries have grown slightly faster than has their use of natural resources. That means that some industrialised countries have achieved a decoupling of economic growth and resource use.
This decoupling is based on two circumstances. On the one hand, resource efficiency has improved by about 2 percent per year in industrialised countries since 1970 (according to the World Bank). On the other hand, a significant part of per capita environmental performance in the EU has been based on de-industrialisation and de-materialisation of the economy. Energy use has been scaled back because an increasing level of economic activity is in the services sector (50-75% of GDP in OECD countries).

Further improvements in energy- and material-efficient technologies are expected. Improvements in the power industry will bring the conversion efficiency of fossil fuels from 35% to 60%. There is still a long way to go – even to remove the barriers to the use of combined heat and power plants. Development of energy- and material-efficient systems in the industrial sectors has a knock-on effect in other sectors up to energy distribution systems and energy-saving building technology.

Environmental concerns in manufacturing have evolved from point-source emissions to a focus on lifecycle effects. Despite the fact of minimal public recognition, the technical progress made in increasing resource efficiency, including energy and materials, and reducing pollution stems largely from industry's own efforts. Manufacturing in OECD countries reduced its pollutant emissions despite a greater than 50% increase in production. The same applies for the reduction in the release of toxic substances, e.g. in the US by 45% in 1988-1998 (OECD environmental data compendium 1999).

Alongside the technological perspective, industry - especially in Europe - has invested in its environmental management capacity. The "homework" set by the Rio-Conference in 1992, to make environmental management a top business priority, has been done to a large extent. Companies have learnt to set their own priorities and targets and to monitor their achievement. They have therefore earned the right to take a greater share of responsibility qualify for the environment - far beyond command and control.

CONSUMER SOCIETY

We live in a consumer society. In absolute and relative terms, consumption is rising. This trend will continue, fuelled by consumer demand for better, cheaper and more convenient devices. Consumer behaviour is unlikely to change, and growing access to the web offers unimagined opportunities to find and create new demand for goods and services. There is the striking example of Athens where car registration plates ending with odd and even numbers were only allowed on the roads on odd and even dates to cut pollution, and people who could afford it bought another car so as to be able to drive on both days. Or have you already considered buying a new fridge or washing machine that is less energy-consuming driven only by the fact that you want to decrease the environmental impact of your personal

consumption behaviour? Usually, this new appliance is purchased only when the old device reaches the end of its life, even though the new one has lower operating costs.

To satisfy consumer needs we are reliant on a carbon-based industry. Fossil fuels supply roughly 90 percent of the world's commercial energy. Energy-related emissions account for more than 80 percent of the carbon dioxide released into the atmosphere. Rapidly increasing worldwide production and consumption still outweigh the success in increased resource efficiency ("scale effect"): according to the International Energy Agency, global energy demand has risen at just over 2 percent a year for the past 25 years and will continue to climb at about the same rate over the next years if current energy patterns persist.

This energy-intensive consumption behaviour is becoming the model around the world. As soon as individuals in a country reach a certain income threshold, they will start to consume, very likely by fulfilling the aspiration of personal mobility and copying the western model of life. Transportation of all types accounts for more than one quarter of the world's energy use. Moreover, since the early 1970s the global fleet has been growing at a rate of about 16 million vehicles a year (according to the World Resource Institute). If this kind of growth continues, there will be well over one billion vehicles on the world's roads by the year 2025. Growth potential is especially great in the rapidly developing economies of Asia. In China for example, there are only 8 vehicles per 1000 persons and in India only 7 per 1000 persons; by contrast, there are about 750 motor vehicles per 1,000 persons in the United States. Emissions of CO_2 from motor vehicles account for more than 15 % of global fossil-fuel CO_2 releases. The OECD countries accounted for about two thirds of total CO_2 emissions from motor vehicles, although these countries represented only 16 percent of the word's population. Given the likely growth and the environmental problems caused by motor vehicles it is certain that a long-term shift away from oil as the universal energy source for transportation needs to be made. And, remembering that the biggest driver for this transportation growth is consumption behaviour of individuals, consequently the household has to be placed at the centre of considerations.

Moreover, the electronic commerce revolution is set to take off, which is likely to have an impact on the use of energy if Europe fails to achieve sustainable development and continues as at present. However, we are still not certain what that impact will be. Some people believe that logistics will be streamlined and energy efficiency improved through effects on retail distribution and consumer shopping patterns as a result of electronic commerce. Others think that fragmentation of orders and an increase in electricity consumption needed to power the multitude of electric devices on which electronic commerce is based will have exactly the opposite effect. But it is certain that electronic commerce will create new opportunities for consumption.

NEW POLICY APPROACH TOWARDS SUSTAINABLE INDUSTRIES

In UNICE's view the concept of sustainable industries covers three aspects:

a) An environmental aspect: this relates to a company's or sector's capacity to make continuous progress in increasing the resource efficiency and in controlling the impact of its activities and its products on the environment. This capacity for environmental progress clearly depends very heavily on the capacity for technological innovation of the company or industrial sector in question.
b) An economic aspect: this relates to the economic health of a company or an industrial sector but as well a country or the EU as a whole. Competition and the marketplace

are the motors for finding innovative ways to use energy and materials efficiently without polluting the environment.

c) An employment aspect: employment is a product of investment and it is very important to pay attention to the sustainability of employment in industry. In this area, there is reason for concern since the share of employment in the manufacturing sector in total employment shrank from 34.2% in 1985 to 29.5% in 1998 in Western Europe. In a context of increasingly fierce global competition, it is becoming essential to plan environmental initiatives carefully if employment is to be safeguarded.

Technical progress and economic growth must be increasingly utilised to achieve the goal of sustainable development. Only further development of present day technology can provide the answers to the global challenges. Investments and innovation in technical progress will lead to economic growth, a prerequisite to raise the profile of environmental concerns and improve environmental quality, and to increase resource efficiency. As well as relieving the environment, they also create jobs and income. Environmental protection calls for innovation and a "climate for investment" not only in fundamental research but also to generate groundbreaking solutions.

NEED TO CHANGE

One shortcoming of the present environment policy is that it has been developed bottom-up, and lacks an overarching design. Today's detailed "command and control" approach results in a situation of moving targets. There is insufficient lead-time to adapt production and processes, and by the time new regulation is in place the conditions to which the new rules are to be applied have often changed. The current policy and continuously moving targets oblige industry to invest in stop-gap measures when what is needed is a longer-term view to ensure that environmental investments are money well spent with a payback over a number of years. Technologies are available to meet forecast requirements, but the dominant technologies today are defensive.

It is time to correct this. In order for progress to be achieved, an environmental policy framework is needed to support and encourage companies' own environmental initiatives. Such a framework would inject a certain logic into policy-making:

- ?? Prioritisation of environmental challenges.
- ?? Hierarchy of these priorities thus optimisation towards an overarching goal is possible.
- ?? Criteria for setting objectives and targets.
- ?? Continuous monitoring and evaluation of measures against the defined objective and the three pillars of sustainable development.
- ?? Review of measures taken and correction of negative gaps.

The new approach should give much more emphasis to voluntary agreements, co-regulation and other such tools. Regulation, insofar as necessary, should define the ends but leave the means open to operators. This creates an incentive for innovative technical solutions which can be adapted to changing circumstances.

At the moment, environmental objectives are often opportunistic, based not only on what the European Commission wants to achieve in minimising environmental impact but also on what green groups in the European Parliament think they can get from the European Council. This results in unrealistic, over-ambitious targets and non-compliance. Furthermore, due to no shared understanding of the desired environmental quality, measures and targets are often incoherent. Emission limit values are set so that benefits for one medium (e.g. air) come at

the expense of another (e.g. waste), or the other way round. Industry welcomed the IPPC Directive that takes an integrated approach to achieving a high level of protection for the environment as a whole. Another good example of incoherence is the current requirement for operators concerned to report on the IPPC Directive, SEVESO II, EIA and EMAS separately and not in a harmonised fashion. EU legislation has to become simple, unambiguous and enforceable. Stable and realistic objectives based on sound scientific data, risk analysis and shared understanding give legal certainty and will improve implementation as well as compliance.

Environmental policy is largely treated as a stand-alone area with insufficient accountability to other policy areas. The debates on policy integration, especially during the Finnish Presidency, were essentially a one-way street in which the environmental aspects of industry, transport, agriculture and other policies were identified, but in which the economic and social implications flowing from environment policy have been poorly addressed. Sustainable development policy should be integrated in a coherent manner and break the prohibition on questioning the impact of environment policy on other policy areas.

As things currently stand, impact assessment is not carried out, or done through the fiche d'impact in such a cursory way as to be ridiculous. There have been some exceptions such as the VOC directive. The environment is set as an absolute value so that talk of costs is regarded as tantamount to selling your grandmother. This taboo needs to be removed, to re-introduce a sense of relative value and costs. We have to face the fact that environmental goals compete for scarce resources, not only in relation to economic needs but also and to a growing extent among themselves, since investing financial resources and human know-how in one given activity means not investing it in others (opportunity cost). This means making choices between environmental media and stages of product lifecycles. Therefore there should be a systematic impact assessment for every new initiative, which takes an integrated perspective. The current debates in the waste field, where one single perspective on products claims absolute priority, show that we are still a long way from such an approach. The available limited financial resources have to be distributed to achieve the highest possible overall benefit for the population. Ideally, the distribution of investment, financial or human, should be arranged in such way that the marginal cost of the most expensive measure per problem area is identical for each of the cost/benefit curves of the problem areas. Future additional measures in the field of health/environmental protection should consider cost/benefit aspects in the context of other major risk to society in order to minimise the overall risk.

The impact assessment should not only be carried out for the measure involved but also on the cumulative effects on SMEs and employment. Unlike hazard prevention, questions about the economic and social cost of sustainable development are not only legitimate but imperative, and should be answered with the broadest possible consensus among those concerned. In particular, the social impact has been totally missing to date, and needs to be incorporated.

Protection of the environment is a shared responsibility. At the present time, industry is often used as a soft target. Co-responsibility with the consumer has to be developed further, and the debate should be widened to give consumers the information they need to make "the right choice" when buying a product or choosing a lifestyle. Communication on the environmental requirements and performance of products is of key importance, but it will only work if instruments are developed which are easy to administer and attractive to apply by industry and business, and also tailored to the information needs of the relevant consumers. Business accepts its responsibility for providing accurate information on the use and disposal of

products and will continue to work on better information systems aimed also at increasing the trust in information given by industry.

We know very well that one of the major sources of environmental impact is the individual consumer and/or household. But the underlying behavioural drivers of consumption are so far not sufficiently understood and therefore a major research effort should be undertaken to fill that knowledge hiatus. There is nowadays a body of consumers searching actively for and demanding detailed information about environmental product performance for their buying decisions. This group is still very small. But if more people can be encouraged to act in this way, and to pay higher prices for green products, then production and product design will be steered towards a higher environmental performance through their growing market presence.

The Global Assessment of the 5th Environmental Action Programme acknowledged the "enforcement deficit" and "lack of ownership" of the current "command and control measures" in the environmental field. The most efficient way to change this situation is through a multi-stakeholder process. Such an approach complies with the stated objective of the European Commission for stronger involvement of citizens and stakeholders in order to make it possible to achieve sustainable development. Transparency and shared consent on basic assumptions will increase the willingness to take over responsibility and to act accordingly. During this process, industry has to outline what technical and organisational resources it has available and what difficulties it has in applying them. European institutions and industry are under pressure to provide evidence that Europe's resources, both human and financial capital, have been used efficiently and effectively to achieve environmental goals.
Further, the multi-stakeholder process will help in the necessary process of evaluating the effectiveness of specific measures, in order to review them and correct any identified negative gap.

The European Union can no longer drive policy development on its own. Future environmental needs will need to be designed around global strategies and policies. Several bodies have been and are active in this arena such as the World Health Organization or the United Nations Economic Commission for Europe, resulting, for instance, in the UN Protocol to combat long range trans-boundary air pollution or the well known Kyoto Protocol. The reason is clear: our usage of natural resources impacts much further than the EU's shores. For example heavy metals and polyaromatic hydrocarbons have been found at very high concentrations in arctic ice. Raw materials are shipped or piped over huge distances. Hydroelectric dams constructed to produce electricity which then starve downstream countries of water for crops or drinking water. For Europe it is typical that major environmental threats tend to be either global in scope or they effect large regions.
EU environment policy should be assessed in a wider sense of "conditionality" – too strong a focus on national environmental protection work seems misguided.

CONCLUSIONS AND RECOMMENDATIONS

A genuinely new policy approach is absolutely necessary. Environmental policy-makers are now requested to switch from isolated approaches and authoritarian instruments to an integrated point of view and policies that touch on innovation. Technology and environment policy should have a complementary and mutually reinforcing role, fostering sustainable growth at national and global level. However, remembering that a regulatory climate is not neutral from a competitiveness point of view, the question is: how to create an alliance between a regulatory framework and competitiveness?

The first step is to agree on the objectives. Secondly, there is a need to have a coherent approach between the media of air, water and soil as well as between the ecological, economic and social pillars of sustainable development. The third consideration concerns increased compliance with the agreed objectives through efficient and effective measures. Last but not least, all stakeholders have to be involved to reach mutual consent and encourage a feeling of ownership, and to foster an ongoing and collaborative learning process based on exchange of expertise and best practice. The need to reach consensus obviously means that an EU framework aiming at sustainable development and at high health, safety and environmental standards will not be constructed overnight. Industry and business accept as a priority the intellectual challenge of consensus-building with our partners. The EU can play a strategic role in achieving this.

Preparation of the 6th Environmental Action Programme gives the EU an opportunity to demonstrate its willingness to opt for the new and necessary departures, and genuinely to address the environment within the context of sustainable development.

UNICE and its members federations are committed to the principle of sustainable development, as a balanced economic, social and ecological approach to meeting environmental challenges. UNICE members believe they have a key contribution to make to such integrated and sustainable development of economic activities as partners with other stakeholders.