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## A business agenda on sustainability

### Key messages

- Business plays a fundamental role in societal development – as a major investor, innovator, skills generator and job creator, supporter of economic growth, source of revenues (direct and indirect) that can generate public resources for necessary investments in welfare and key infrastructures like schools and/or hospitals; or as a means to integration – of young people as well as migrants, giving individuals a chance to develop and have an income.
- Sustainability is a mind-set and an approach whereby the behaviours, actions and decisions of companies, citizens, workers, consumers and governments are driven by the realisation of their economic, environmental and social impacts in a balanced manner.
- Competitiveness and sustainability are not in opposition. In fact, there is evidence that where EU companies are relatively advanced in this field, they can have easier access to finance, and/or this can be a competitive advantage for them on international markets.
- Europe must therefore approach sustainability policies in line with its need to remain globally competitive. It should be about encouraging and supporting sustainability in a partnership approach with companies and the relevant stakeholders. Policy intervention should focus on areas where it is needed and can effectively bring added value. Any legislation introduced at EU and/or national level should avoid constraining or weakening European enterprises and their competitiveness, and rather enable business to contribute to achieving their sustainability goals.
- The EU must strive to focus the globalisation process on increasing prosperity and improving people's lives in advanced, emerging and developing economies in a balanced and inclusive way.
- Trade policy needs to be fully mobilised to support European companies developing their activities around the world, in a way that is also beneficial to our trading partners, and ensuring that they too work towards reaching sustainable development goals (SDGs). Europe could play the role of mobilizing others (nations, institutions, regions) to collaborate and participate in actions to implement the sustainability agenda.



## A role for business in sustainability

1. Companies increasingly act on the basis that putting sustainability at the core of their business strategy can have a positive impact on their competitiveness. This commitment to sustainability is embedded in their long-term objectives, as well as a tool to respond to issues that arise in the short-term. They also recognise their role in society, which reflects a mix of managers' commitment, shareholders' and investor expectations, employee demands, growing consumer awareness and/or expectations from local communities in which they operate.
2. As a result, global companies are world leaders in delivering sustainable solutions that can improve the balance between the three P's: people, profits, planet, by linking the goal of profit-making within a broader goal of creating shared value for workers, citizens, the environment and society at large. This is also a way of protecting long-term shareholder value, which is clearly key for the economic sustainability of companies.
3. Operationally, this means that companies integrate, as appropriate, social, environmental, ethical, human rights and consumer concerns into their business operations. When doing this, they have an important role in achieving economic, environmental and social sustainability, by offering innovative solutions to today's challenges, e.g. related to demographics, social, environmental or other issues. Where the framework conditions allow business to thrive and policies support them, companies can act more effectively in achieving this.
4. In this sense, and if well-designed, sustainability and related policies can be a business opportunity, when linked to the development of new products, processes, services or innovation in business models and the commercial opportunities that come with this in Europe and globally.
5. For example, climate policies create markets in the EU, but also outside the EU, for low-carbon products and technologies. The global market for low-carbon and environmental goods and services amounts to over 4 trillion euros. In many cases, European companies are world champions in those sectors, which is helping them to grow their businesses and remain competitive. This is an example of an area where the three pillars of sustainability can be mutually reinforcing.
6. Acknowledging that there is no one-size-fits-all approach for responsible business conduct, companies are also increasingly involved in sectoral initiatives (e.g. mining, textile, clothing, chemicals etc). In addition to working jointly with public authorities, involvement in business-led initiatives in specific sectors gives companies another possibility to tackle sustainability issues in a collaborative way and learn from others.
7. Another example of European business commitment to sustainability is the longstanding tradition of social dialogue in Europe. Our culture of social dialogue can definitely be an asset for Europe in the changing world, to accompany the ongoing transitions. The challenge is to move away from a tradition whereby the purpose of social dialogue is usually seen as an instrument to achieve social peace by adding to existing social rights. In the future, a key factor to encourage enterprises and their organisations to invest in



social dialogue is to ensure that it also positively contributes to competitiveness. Essential in this respect is that companies have enough flexibility to adapt their workforce to changing economic circumstances, notably in terms of working time, wages and contracts.

8. Furthermore, companies are more and more operating in a sustainable way and act voluntarily, based on their own specificities and resources (i.e. adapting their actions to the type of products or services they sell or to the markets in which they operate), and when relevant in collaboration with their stakeholders, to monitor, assess and, where appropriate, report on the social, environmental, consumer protection and human rights impacts of their business operations. Business also works with a vast range of indicators, including those based on existing national and global CSR frameworks, those provided by financial institutions and stock exchanges, and those developed by sectors or internally in companies.
9. This is often part of corporate social responsibility practices or responsible business conduct, where companies are the main drivers. This allows them to identify, prevent and mitigate any possible adverse impacts of their business operations on people, society and the environment. As part of this, more and more companies also monitor their global supply chains. In fact, given their complexity, it may be more accurate to speak of supply matrices rather than speaking about supply 'chains', suggesting a linear relationship.
10. Policy debates should also take into account the fact that large enterprises have thousands of suppliers. To avoid creating expectations that cannot realistically be met by companies, it is essential that companies can focus their efforts and resources where the risk of adverse impacts on human rights or the environment is highest. Legislative initiatives increasing companies' obligations to comprehensively control social, environmental, consumer protection and human rights aspects along the supply chain should take due account of this and not shift part of the responsibility from states onto companies.
11. Furthermore, introducing legal obligations with a transnational reach to address global supply chain challenges can have unintended consequences on inclusive economic growth as well as the ability of companies to work together with other stakeholders to gradually improve conditions. As experience in the area of conflict minerals shows, an overly-restrictive and punitive approach can discourage companies to engage and invest in emerging and least developed economies. To the contrary, initiatives that are based on the development of multi-stakeholder partnerships are proven to be more effective, ensuring long-term engagement of governments and the civil society, including business.
12. Companies are integrated in local communities and they work closely with local and regional authorities. Sustainability efforts can only lead to good results if both companies and public authorities are coordinated on the ground, if authorities fully play their primary role (i.e. controlling implementation and respect of the local legislation and of the obligations linked to trade agreements or other international conventions/instruments) and are committed to supporting the actions taken by the companies. This is even more important for companies that operate in different markets around the world.



### Harnessing the interlinkages between the different pillars of sustainability

13. The three pillars of sustainability – economic, social and environmental – are universal and interdependent and can be mutually reinforcing. A number of aspects are at play simultaneously:
- Economic sustainability, which is about the capacity of economies to generate economic growth over the long-term, is a precondition to generate the foundations for investment needed for social development and environmental protection. Therefore, sustainable public finances and social security systems are crucial to allow future generations financial leeway;
  - Depending on how social development and environmental protection policies are designed they can underpin the goal of economic growth, or undermine economic sustainability; and in this respect, a strong EU agenda on innovation could support the EU in better tapping the benefits that sustainability offers;
  - Trade policy is also closely linked to sustainability in the sense that it can be a vehicle not only to promote economic growth but also norms and values that will help address challenges in today's complex and dynamic global value chains. Trade policy should aim at achieving a level playing field, while promoting environmental protection, social inclusion and respect of human rights within EU societies as well as in our relations towards trading partners, keeping in mind specific challenges in developing countries and differences arising from their diverging cultures, development and history.
14. In view of these links, sustainability debates should take full account of the fact that competitiveness is a necessary pre-condition for companies to play their role in society. Less competitive companies make less profits, invest less, innovate less, create fewer jobs, generate less updated skills, reward investors or shareholders less and pay less taxes. Ultimately, companies creating shared value is about them operating in a socially and environmentally sustainable way, and being economically and financially sustainable.
15. For example, EU businesses support the pursuit of improving environmental standards both in the EU and overseas, as long as this is not achieved at the expense of their competitiveness. EU policy must also be designed in a way which avoids unintended adverse consequences, for example actually leading to increased environmental impacts globally, as damage is simply shifted elsewhere. In this regard, EU businesses support strengthening environmental multilateral mechanisms.
16. With respect to the use of natural resources, economic activity which draws on finite and non-recoverable primary resources may in some senses be considered unsustainable. At the same time, advances in research and innovation contribute to the discovery of additional natural resources, the development of more efficient products, and the increased use of renewable energy resources or secondary raw materials.
17. Income or wealth inequality has increased globally. While inequality levels in Europe are lower than in many countries around the world, we should not ignore this issue. Inequality can weigh on economic and social sustainability for example through increasingly debt-driven economic growth, or be a factor of political instability. Therefore, public authorities



need to foster social cohesion and support citizens in adapting to change, for example due to globalisation, the ecological transition and digitalisation. The key factor to address inequalities and poverty is to encourage companies to invest and create jobs. Employment and building capacity in skills, to sustain productivity is the best route to social inclusion and high standards of living. Increasing global competitiveness and international trade can also help create jobs and tackle some of Europe's social problems by being a source of wealth creation.

## How to implement sustainability policies in Europe

18. The way policy debates on sustainability have evolved over the years has often been confusing. This is due to the difficulty in addressing sustainability in a coherent way at global, regional, and national levels, taking into account the different policy-making competences and domains. It also remains a challenge at all levels of policy-making to approach sustainability in a way that focuses on economic sustainability facilitating environmental and social sustainability.
19. The EU and its member states have a good record in implementing a sustainability approach in their policy-making processes. An illustration of this is the fact that Europe is leading on social and environmental standards and corporate reporting. The renewed political attention on sustainability should therefore not imply a revolution, but a smart evolution in the way the EU acts, also by supporting participation and involvement of other global players.
20. The role of public authorities is to:
  - ensure that sustainability frameworks are as clear as possible;
  - analyse the impact of sustainability policies on companies, taking into account the specific needs of SMEs;
  - raise companies' awareness;
  - promote good practices;
  - promote an equal level playing field for enterprises;
  - promote stakeholder dialogue;
  - promote international cooperation.
21. A cooperative attitude on the side of public authorities is an important building block to design and implement sustainability policy frameworks that support enterprises' own actions. There are a few examples of how the cooperation between public authorities can bring mutual benefits.
22. Sectoral voluntary approaches are an interesting way for companies to work jointly with governments and other parties to address issues of common concern. They can be particularly helpful for SMEs, who may not have the same capacity or knowledge to develop and implement detailed sustainability policies, compared to large enterprises. They may also have particular challenges in supply chains. There is a need for awareness-raising amongst SMEs that sustainability can be part of core business activities, as well as assisting them in promoting their sustainability and CSR practices. A lot of what SMEs already do has a positive impact on their communities, employees,



customers or business partners. It is important to better recognise existing actions of SMEs as well as to support them by tailor-made training programmes.

23. Another example is Public-Private Partnerships. They can be an effective way for public authorities and enterprises to combine their respective resources, expertise and strengths to achieve better value for money in delivering on environmentally and socially responsive projects.
24. While more can be done to achieve business-friendly sustainability policies across Europe, the European approach to sustainability needs to combine ambition with realism.
25. In fact, Europe has very much played the card of leading by example. While this strategy is often quoted as helping European companies to acquire global market shares by giving them 'first-mover advantage', which can be the reality for some, there can be downsides as well. This is notably where policies create disproportionate burdens for EU companies with barriers to investment and extra costs making their business less profitable.
26. For example, the EU has always been a frontrunner in international climate negotiations, advocating for other major economies to scale up their efforts. While international negotiations are complex and the drivers of decisions are often manifold, the conclusion of the Paris agreement shows that other major economies are ready to scale up their emission reduction efforts compared to what they have done in the past. The EU has been a persistent voice in making sure that others take actions as well. The US intention to withdraw from the Paris agreement is therefore regrettable as it marks a severe setback for global efforts to tackle climate change.
27. Another illustration of this is the way the EU promotes ratification of International Labour Organisation (ILO) standards and the implementation of the principles of core ILO conventions by EU member states and uses ILO conventions as a reference framework for EU policy, also in free trade agreements. With regard to promoting ratification of ILO standards, the EU should act in line with the competences conferred on it by the EU Treaty.
28. Furthermore, there are examples where improvements could be made in terms of ensuring that policies are mutually beneficial for the three pillars of sustainability, with the ultimate goal of achieving higher levels of growth. For example, in the field of energy efficiency, huge improvements could be achieved with a higher speed renovation of the existing building stock in the EU, also providing a strong stimulus to the construction sector that is labour intensive.
29. EU business and industry need 'future proof' policy approaches that incentivize the emergence and deployment of environmentally-friendly solutions and technologies instead of overly prescriptive regulations that go beyond current technological and economic feasibility.



### How can trade agreements support sustainability

30. Increased openness to trade and investment globally is a competitiveness driver. Trade is one of the main engines of transferring knowledge and technology across countries. These elements must not be underestimated in sustainability debates.
31. Improved access to third markets means more possibilities for companies to grow and invest, leading to more and better paid jobs in the EU but also abroad. More and better trade is essential to support the renewal of European industries and their success in rapidly developing business areas and key growing markets.
32. While there has been a fivefold increase in the number of bilateral and plurilateral trade agreements in the past two decades, trade rules and trade agreements are increasingly considered as an important tool to harness globalisation and promote sustainability.
33. The EU can and does use its trade policy and related instruments to help ensure that globalisation develops in such a way that the EU is able to maintain its global competitiveness, whilst retaining and even reinforcing its valued model of high environmental and social standards. This means promoting a level playing field and ensuring that access to EU markets is based on products and services meeting high environmental and social standards.
34. With its trade policy, the EU is using its own experience to effectively contribute to solutions through a variety of instruments. Promoting best practices by Third Countries, for example by giving them special preferences, can be an effective way to boost sustainability provided that there is a close monitoring of the effective implementation of the commitments. For instance, the EU's Generalised System of Preferences (GSP) contains a particular pillar - the GSP+ - that supports sustainable development and good governance in the recipient countries based on 27 UN Conventions. "Aid for Trade" is another important scheme, in which the EU is the largest donor.
35. Furthermore, the EU incorporates Trade and Sustainable Development Chapters in every Free Trade Agreement (FTA) that it concludes. Those chapters are designed in a way that allows the EU and its trading partners to work together on issues of sustainability, including through Domestic Advisory Groups. We are aware that the effectiveness of these chapters, including the monitoring/stakeholder involvement mechanisms are being questioned by some. As business, we are ready to actively contribute to the debate, suggesting ways to improve effectiveness without jeopardizing trade and investment flows. We continue to believe that effective implementation and monitoring of the enforcement of the provisions in sustainability chapters of FTAs is best achieved through a consultative approach, cooperation, transparency and civil society engagement, rather than through sanctions.
36. Promoting sustainability via trade agreements is a legitimate objective. Given that economic growth and one in seven jobs in the EU - i.e. around 30 million jobs - depend on exports, the right balance needs to be found between the core objective of EU trade, which is to increase market access for European companies and sustainable development goals. EU companies wishing to develop through trade and investment in Third Countries should continue to be encouraged to do so, as this is crucial to the



economic and social development of many countries and regions in the EU as well as in third markets.

37. It is also important to take into account that the EU's trade policy in general, and FTAs in particular, are not the only source of action on sustainability. Relevant work is also conducted in other international fora, such as the ILO, e.g. decent work in global supply chains, the UN, i.e. the Guiding Principles on Business and Human Rights, the Global Compact and the COP conference on climate change and the OECD, i.e. the guidelines for multinational enterprises. Therefore, modern FTAs must not become a substitute for these fora.

#### How to have effective and appropriate governance

38. The question of governance is particularly important in sustainability discussions, given the global dimension, complexity and broad scope of policies involved.
39. First and foremost, BusinessEurope strongly believes that when it comes to promoting sustainability and sustainable business practices, it is crucial to ensure a global level-playing field between EU businesses and businesses operating overseas.
40. The SDGs can be a good way of promoting business solutions in a range of fields, of highlighting the central role business plays in responding to today's and tomorrow's environmental and societal changes, as well as providing in some cases business opportunities. Businesses are starting to assess how SDGs are material to them and prioritising actions on this basis, including adapting their business strategies.
41. At the same time, clearly the SDGs are targeted mainly at public authorities and international institutions - UN member states have primary responsibility for follow-up and review of the progress made in implementing the goals. The measurement and monitoring is complex, for instance, a set of 241 indicators has been agreed on at the 2015 SDGs UN summit, to provide a basis for analysing the implementation of the 17 goals and 169 targets. It is important to assess how business can achieve maximum value from participating in such a process. It is certainly true that more skills and resources will need to be developed to make this process effective and useful. The EU should be ready to provide support in this respect.
42. A crucial element of the SDGs is establishing partnerships, including with the private sector, to mobilise private investment, knowledge, innovation and new technologies, especially in the developing world. There are opportunities for businesses to support governments in their endeavours, such as the European Investment Plan for Africa. Private investment can have a role in enhancing wealth in developing countries and providing access to energy, health, education and food security.
43. Given what already exists in terms of the framework on the SDGs, BusinessEurope does not see the need for specific EU governance. We believe that to improve streamlining of the sustainability agenda it would be more beneficial to increase coordination efforts between the Commission's relevant Directorate Generals, and have a specific focus on partnership facilitation, including by:



- Facilitating and promoting innovation and technological development by business as a way to provide solutions for societal and environmental challenges;
- Using the full potential of trade policy to open new markets for European companies, and help them disseminate European standards, values and sustainable practices on foreign markets;
- Working to remove barriers for the circular economy, which has the potential to strengthen both businesses and the environment by leading to decoupling economic growth and the use of resources;
- Ensuring environmental policy provides a high level of protection without jeopardizing the competitiveness of industrial sectors exposed to fierce global competition;
- Bringing the relevant elements in terms of economic and social policy-making into the economic governance / European semester processes;
- Lifting barriers to the development of PPPs - Public Private Partnerships, by mobilising private finances to partner with public authorities and creating incentives such as an attractive tax treatment of investments in PPPs;
- Creating an environment where businesses can highlight what incentives would trigger more action towards sustainability within their respective companies;
- Taking into account the importance of peer-to-peer and B2B influence.

44. The multi-stakeholder platform on the implementation of the Sustainable Development Goals in the EU, announced as part of the Commission's communication on "Next steps for a sustainable European future: European action for sustainability" is a good way to integrate business in the process of creating a more sustainable world but also by identifying market opportunities, growth and innovation that SDGs might bring to companies. However, to make it possible, this platform should ensure a good representation of stakeholders, including organisations representing the business community in the broadest sense.

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