

Stavros Dimas

Member of the European Commission, Responsible for
Environment

Growth, Jobs and the Environment

*Check Against Delivery
Seul le texte prononcé fait foi
Es gilt das gesprochene Wort*

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I would like to begin by thanking the European Environment Agency for giving me the opportunity to address such a distinguished audience of professionals. This is my first visit to Denmark since I took office as Environment Commissioner and I have been impressed by what I have seen of the EEA. It is quite true that good policy needs good science and this is exactly what the Agency is providing.

I would also like to thank Minister Hedegaard for inviting me to Denmark and for organising an excellent programme. It is a pleasure to be here. And at a time when the “Nordic social model” is providing inspiration for Europe’s social policy I will simply note that the “Danish environmental model” has been a driving force behind EU environmental protection for decades.

The title of my presentation is Growth, Jobs and the Environment. For those of you familiar with the EU’s buzz words this is a reference to the “Lisbon Agenda’s” objective of promoting growth and jobs. What I intend to do today is show how a well thought out set of environmental policies can make an active contribution to this objective.

The arguments to prove this point are not new. But it is important to restate them since the last 12 months have seen the increasing acceptance of the outdated view that environmental protection limits growth and costs jobs. This is mis-information – and it is time to put the record straight.

GREEN COMPETITIVENESS

Environmental standards foster innovation and clean production

The first way in which environment policy contributes to growth is by promoting innovation and more efficient production.

Professor Michael Porter is THE leading thinker on innovation and competitiveness. He has been described by his peers as "probably the world's most influential business academic and one of a handful of the most influential who have ever lived."

Porter addressed the issue of Green Competitiveness 10 years ago. He noted that the traditional view of environmental regulation was as a social benefit that added to the costs of industry. Under this scenario, policy making soon became “a kind of arm-wrestling match – with one side pushing for tougher standards and the other trying to beat the standards back”.

But he went on to conclude that this view was based on an out-dated and static view of competitiveness. If the starting point is that competitiveness depends on innovation then properly designed environmental standards can actually increase competitiveness for two distinct reasons.

The first is that the need to improve environmental performance triggers innovation that can offset the costs of compliance. Innovation leads to the “first mover advantage”. A good example is wind energy where the EU, and Denmark in particular, are world leaders. A more worrying example is the Toyota PRIUS where we have already fallen behind the competition.

The second benefit is that reducing pollution usually coincides with more efficient industrial processes and a better use of resources. Clean production is lean production and increased efficiency pays off in lower energy, waste and resource costs.

In the decade since Porter's research the evidence has backed up his conclusions. A recent OECD study of 4,000 manufacturing firms found that environmental regulation systematically led to investment in eco-innovation which paid off in terms of cleaner and more efficient production processes. The OECD's conclusion was that companies that improved their environmental performance were more likely to be profitable.

Industry is waking up to the possibilities. Jeff Immelt is Chairman and CEO of General Electric. Earlier this year, in a presentation to policy makers in Washington DC, his conclusion was crystal clear:

"Europe today is the major force for environmental innovation. We – General Electric - are therefore investing in environmentally cleaner technology because it will increase our revenue, our value and our profits ... Not because it is trendy or moral, but because it will accelerate our growth and make us more competitive".

The new high-growth sector of environmental technologies

The second way that environment contributes to jobs and growth is through the booming sector of environmental technologies. The driving force behind the development of these technologies is usually regulation – which creates the need for better environmental performance.

Denmark is a particularly good example of the opportunities offered by eco-technologies. Since the beginning of the 1970's Denmark has developed technological and administrative solutions that are being used all over the world. Last year, exports related to environment and energy were worth €3.3 billion or 4% of total Danish exports. Wind turbines are a sector where Denmark is the world leader with three major Danish companies accounting for more than 40% of the global market.

Denmark's export success isn't an isolated story. The EU eco-industries account for about one-third of the global market. Last year exports grew by around 8 per cent and there was a trade surplus of over €600 million. Prospects for the future are good and the businessmen I speak to are confident of growing sales. In particular they see countries like China and India turning to environmentally friendly products and processes as the best means to develop.

Environment and the single market

A third, but often overlooked, way that EU environmental standards contribute to jobs and growth is by underpinning the single market. This is the one most important contribution that the EU has made to the continent's prosperity. It has been estimated that the single market has created 2.5 million new jobs and generated more than €800 billion in extra wealth. I have not spoken to a single businessman who does not support active intervention to ensure its efficient functioning.

But the single market also means that many environmental standards need to be set at the EU level. If we don't have common standards then we run the risk of "Eco-Protection" where national rules act as barriers to trade. This is why the Single European Act introduced the legal base for EU environmental policy. It is also why much of the EU's environmental legislation is based on single market principles.

Green Jobs

And by encouraging growth environmental policies can also create jobs. Over 2 million people are directly employed in Europe's eco-industries. The dynamism of the sector means that the number of jobs is growing by an estimated 5% a year. As a result, a 2004 OECD report concluded that environmental regulation did not harm employment and if anything was a net creator of new jobs.

THE COST OF NON-ENVIRONMENT

So far, I have looked at the benefits of action, but we also need to understand the costs of inaction. I am a firm believer in learning the lessons from history and was interested to learn from Professor McGlade about the Agency's report "Late Lessons from Early Warnings". The report uses 14 very different case studies to look at the costs and benefits of environmental initiatives when compared to inaction. The examples are striking and salutary:

One case study documents the over-exploitation of fish stocks that led to the collapse of the Newfoundland cod industry. Thousands of jobs were lost, the local community was devastated and the financial costs ran into billions of Canadian dollars.

Another example is asbestos where the health costs in Europe alone are estimated at €400 billion – and which brought Lloyds of London to the verge of bankruptcy.

The report also highlights PCBs where the costs of remediation and clean up – in other words, excluding the costs of health care and ecosystem damage – will be at least €15 billion for the period 1971 to 2018. By comparison, the direct cost of REACH has been independently assessed at 2.3 billion Euros over 11 years. If REACH avoids one PCB-like experience then it will have more than paid for itself.

A final illustration is the impact of pollution on human health. Air pollution kills 370,000 people every year in Europe and causes the loss of 200 million working days. The resulting losses in productivity and medical expenses have an annual cost to the EU economy of over €14 billion. In the air quality strategy that the Commission adopted two weeks ago the health benefits alone of the actions we proposed out-weighed the costs by a factor of at least 6 to 1.

The reason I have given so many examples is because they demonstrate an absolutely fundamental point – which is that the cost of inaction can be many times the cost of sensible preventive measures. In the long term, pollution will affect the economy's bottom line just as much as it affects the quality of people's lives. It is therefore up to policy makers not to compromise the environment in a short-term (and short sighted) "dash for growth".

UNDERSTANDING THE CRITICS OF ENVIRONMENTAL POLICY

Well thought out environmental policies can encourage economic growth by fostering innovation, by encouraging clean production, by providing inspiration for the eco-technology sector and by underpinning the single market. What is more they can save both industry and nations the huge costs of dealing with the after effects of pollution.

It may then seem hard to understand why there are still voices arguing that environmental regulations are a burden on economic development and should be stopped – or ideally rolled back. But these arguments continue to be made – and often by influential individuals. It is important to understand why they are so persistent and I can see two distinct reasons.

The first lies in the very nature of environmental protection where the economic benefits of are typically generalised – for example an overall improvement in public health – and usually accrue in the medium to long term. The costs on the other hand are normally focussed – often on a particular industrial sector or a particular geographic region – and are immediately felt. The result is often a well orchestrated campaign against environmental initiatives. The voices in support are muted by comparison.

In situations like this policy makers need to make an effort to see the bigger picture. They need to take the time to listen to all interested parties – not just industry. And most importantly they need the courage to explain to the public why actions with short term costs are nevertheless in their long-term interests.

As an aside, it is important to note that these costs are going down. The amount spent by industry to meet environmental standards has fallen by 25% since 1999. And Europe spends less per person on environmental protection than our main competitors (€440 compared to €670 in Japan and €620 in America).

The second reason behind the “environment is a burden” argument lies on our own doorstep. We have to be honest and recognise there are cases where our legislation – both the directives from Brussels and the national implementing rules - can be unnecessarily complex and costly to implement. This is an area where we can, and should, take action.

HOW TO ENHANCE THE CONTRIBUTION OF ENVIRONMENT TO JOBS AND GROWTH

I would like to finish by looking at three ways in which the EU’s environmental policies can promote the Lisbon Agenda.

Embrace a genuine Better Regulation programme

Firstly, environmental policy needs to embrace the “Better Regulation” agenda. The Commission is a legislative body and the better the quality of our legislation the better we are doing our job. Better regulation means a genuine consultation of all stake-holders, it means a rigorous assessment of costs and benefits, it means removing complexities wherever possible, and it means acting in a strategic rather than an *ad hoc* manner. Better and simpler legislation is also one of the best ways of improving implementation – which is a concern that I know we all share.

Where legislation is ineffective or where it creates unnecessary problems I can assure you that the Commission will review laws and where necessary amend or even repeal them. This is exactly the approach that is being taken with our Thematic Strategies. With air quality we are regrouping the five existing pieces of legislation into a single directive.

A particular challenge is to develop new regulatory approaches, such as market-based instruments, fiscal measures and flexible framework laws. We need to replicate the success of the Emissions Trading Scheme which is delivering reduced emissions by providing direct financial incentives for doing so. It will bring the best out of engineers and managers across the EU, who are now looking for ways to increase energy-efficiency and deploy climate-friendly technologies. It will allow us to meet our Kyoto commitments with the least cost to industry – and as global demand for such technologies grows, EU companies will be able to supply them.

But one word of warning - we must be honest about what we mean by the terms “better regulation” and “simplification”. It is not acceptable if they are used as code words for “weaker legislation” and for “de-regulation”. Any assessment of the effectiveness of our legislation must look at the social and environmental benefits as well as counting up the economic costs.

Support the development of environmental technologies

A second way in which we can improve the contribution of environmental policy to jobs and growth is by establishing a framework to promote clean technologies.

In January 2004, the Commission launched an Environmental Technology Action Plan to overcome barriers to the development and use of environmental technologies. The Action Plan sets out 25 actions to get from research to market and to improve market conditions.

The Action Plan should be supported by considerable Community funding. In the new Framework Research Programme the Commission has proposed funding for environmental research amounting to €2551 million. We will also offer direct financial support through the new Competitiveness and Innovation Programme where €520 million has been earmarked for eco-innovation.

A pro-active dialogue with industry

The final way to reap the maximum economic benefit from environmental action is to maintain an active and honest dialogue with industry. A good relationship is essential so that industry understands our political priorities and so that we can use industry's experience to design the most effective (and least costly) regulations. As an environmental policy maker my goal is to achieve the best possible protection for the environment. The best way to do this is by working with all stakeholders including industry.

CONCLUSIONS

To conclude, environmental standards drive innovation and contribute to competitiveness. They encourage efficient production and minimise the massive costs of cleaning up pollution. And I must underline, that THIS IS NOT AN ENVIRONMENTALIST ARGUMENT. This is mainstream economic thinking. The examples I have given today ALL come from the economic establishment: a Harvard Business School professor, the OECD, the CEO of General Electric.

For those who are still not convinced I would suggest looking at the World Economic Forum's 2005 Competitiveness Report. Published last week, the Report ranks Finland, Sweden and Denmark as three of the four most competitive countries in the world. The same countries top the EU's own European Innovation Scoreboard. And these are the same countries that have some of the highest standards of environmental protection in the EU – and indeed the world.

It is not a case of either growth or environment. Both complement each other very well. It is therefore important that environmental expenditures are properly understood as sensible investments ... not only in our own and our children's future, but also in the here and now of today's economy.