CENTRE FOR EUROPEAN REFORM
briefing note

A 'SMART GROWTH' STRATEGY FOR SUSTAINABLE DEVELOPMENT

By Iain Begg and Allan Larsson

Amid the insults and recriminations which followed the collapse of the EU budget negotiations last June, few people noticed that EU leaders succeeded in reaching agreement on a new sustainable development strategy.

Such a strategy could, potentially, be pivotal in defining how the EU economy evolves in the decades to come and offer a way forward for the European social model. 'Sustainable development' represents the EU's attempt to answer the question of whether the pursuit of economic growth can be made compatible with the preservation of long-cherished social policies and the protection of the environment. Yet sustainable development is far from becoming a defining principle of the EU: the Barosso Commission and influential European leaders such as Tony Blair continue to place much greater focus on growth than the other facets of economic development.

Four years ago, it all looked very promising: the Gothenburg European Council of June 2001 defined sustainable development as a means of meeting the needs of the present generation without compromising those of the future. EU leaders agreed at that summit to focus simultaneously on the economic, social and environmental dimensions of economic development. However, the Gothenburg commitment has had only a limited impact on EU policies, while slow growth has had a debilitating effect on economic reform.

Last June's agreement is an attempt to revive the EU's commitment to sustainable development. The European Commission is undertaking a review of the Gothenburg strategy. The 'Declaration on the guiding principles for sustainable development' agreed by the European Council is intended to guide the EU's revised approach. Later in the autumn the Commission will propose a series of more concrete measures to ensure the strategy is implemented, and develop indicators and benchmarks to measure the progress made by member-states.

Thus, sustainable development will be high on the agenda of the EU in the coming months. This briefing note looks at the EU's attempts to integrate economic, social and environmental considerations into one strategy. It outlines first what was agreed at Gothenburg in 2001 and explores how the idea of sustainable development has fed into other policy choices. It then summarises the 'principles' of the June declaration and discusses their potential implications. It concludes with some recommendations for the Commission, the UK Presidency and the European Council.

The EU's sustainable development agenda

The expression 'sustainable development' dates back to the 1980 Brundtland report – a study led by a former Norwegian prime minister – that highlighted the many social and environmental problems confronting the global economy. EU governments recognised explicitly the idea of 'sustainable development' as a fundamental aim of the European Union in the Amsterdam treaty of 1997. They then agreed on a preliminary strategy for the creation of a sustainable EU economy at the 2001 Gothenburg European Council. However, EU governments have very different views on the relative importance of the economic, social and environmental parts of the sustainable development strategy, while the links to the EU's separate economic reform programme – the Lisbon agenda – remain confused.

The European Panel for Sustainable Development (EPSD) – a network of universities reviewing parts of the EU's strategy – has argued in its report 'From here to sustainability: is the Lisbon/Göteborg agenda delivering?' that the Union failed to create a long-term and stable framework to turn the idea of sustainable development into a clear guiding principle for policy-making in the EU and in the member-states. Its analysis points out that the strategy seems to change from one EU presidency to another. The panel also argued that the European Council has struggled to fulfil its own commitment to reconcile the three core elements – the economic, the social and the environmental – and to translate them into action. This lack of coherence, and balance, in the aims of the sustainable development strategy aggravates the problems of establishing an institutional structure capable of implementing the strategy.

The problem is the lack of a strong co-ordination mechanism between departments for economic, environmental, employment and social policies at the EU level. As a result, the social and environmental dimensions are, in practice, often left aside. Critics of the EU's approach to sustainable development have expressed concern that the environmental dimension seems recently to have been regarded as less vital than, and subordinate to, growth and competitiveness policies. Similarly, the 2005 re-launch of the Lisbon strategy has favoured the economic side of EU's agenda at the expense of the social dimension.

The Declaration of Principles

However, this does not mean that the EU has given up on sustainable development. The European Council last March declared that the Lisbon strategy should be viewed in the wider context of the EU's sustainable development ambitions and asked the Commission to revise its SD strategy. The 'Declaration on Guiding Principles for Sustainable Development', agreed at the European Council in June, forms the basis for this revision. It is about "safeguarding the earth's capacity to support life in all its diversity". It is a concise document that does little more than set out the ambitions which encompass four key objectives:

★ environmental protection

★ social equity and cohesion

★ economic prosperity

★ meeting the EU's international responsibilities

The declaration calls for the EU to improve its policy-making process by developing a more balanced approach, combining social and environmental dimensions with economic concerns. It proposes, for instance, that the EU makes better use of impact assessments – a technique for evaluating the effects of a policy change in terms of key policy aims, such as levels of pollution or of social exclusion. From now on policy-makers should use 'best available knowledge', meaning that governments should base their decisions on solid scientific evidence.

Two more specific environmental principles are also set out. The first is the precautionary principle, which obliges the proponents of a change to demonstrate that such a change is safe, rather than its opponents to show that it is, or could be, dangerous. Much of the debate on genetically modified crops has turned around this precise point, with Europeans insisting that advocates of GMOs should prove that GMOs are safe if they want the EU to allow them. Second, the declaration introduces the 'polluters pay' principle, which aims to ensure that polluters are held responsible for the full cost of any damage they do to the environment, even if there is no direct market mechanism that obliges them to pay.

Challenges for the Commission and the UK presidency

The declaration lays out general principles that few could oppose for reviewing the strategy. But the trouble with such generalities is that they allow policymakers to interpret the principles to justify many different policy stances. In particular, they tend to hide a conflict between those who believe in 'old growth', accepting a degradation of natural resources for the sake of growth, and those who want sustainable development to become 'smart growth', a resource-efficient economic growth.

Furthermore the EU is facing difficult challenges in each of the three pillars of its sustainable development strategy: competition with China, the ageing of Europe and the threat of global warming.

★ On the economic side, the EU is facing growing competition from China and other emerging economies. This competition is forcing Europe to define new ways of maintaining and developing technological leadership, implying a need to identify areas in which it can be competitive at the global level.

★ Second, Europe's ageing population, which will exert a further drag on the EU's underperforming economy, will make it increasingly difficult to sustain Europe's social model.

★ Finally, the EU will have to adapt to the challenge of global warming, which requires it to adopt more energy efficient technologies. Although US support for major initiatives on climate change remains lukewarm, it is at least encouraging that President Bush has now publicly conceded that some of the problem is man-made. Perhaps his call to moderate gasoline use following the calamity of Hurricane Katrina may even signal a change of tack. But the EU should also consider Bush's apparent conversion as a threat: the US may now seek to develop its own answers and its own new technologies. Europe consequently needs to act now to consolidate its competitive advantage in this field.

Individually, each of these challenges is daunting. However, the EU is committed to the even greater challenge of tackling all three at once. The question is whether the EU can concentrate it energies on this daunting task, or whether the capacity of its institutions will once again be absorbed by the fractious debates over the EU budget, constitutional reform or which country's social model ought to prevail.

In addition, the EU has to think afresh about its international obligations in areas such as climate change or help for Africa, taking a lead from the commitments made at the G8 summit in Gleneagles last July.

It seems likely, in the short-term, that the Commission will aim to support measures that diminish the use of raw materials and energy by companies, while also trying to persuade consumers to shun goods that have an adverse effect on the environment. This would imply, for example, thinking again about whether subsidies given to coal producers in the EU offer the right sorts of incentives for 'clean' production and offering tax breaks for industrial processes that consume fewer raw materials. But in the meantime the internal battle will still go on between those who believe that any country that wants to become more competitive should deregulate and those who are convinced that new technology is the way forward. And it is the stance of the member-states, much more than the EU institutions, which will prove crucial, as member-states are responsible for tax policies and for decisions on subsidies.

The European Panel for Sustainable Development, in its report last year on the progress of the Gothenburg strategy, recommended that the EU should turn the present, fragmented agenda into an investment and growth strategy, focusing on fundamental technological change to boost competitiveness and clean up the environment. Europe still has a lead in 'clean technologies' such as wind-powered electricity generation. But other countries, notably Japan, are catching up and could overtake Europe if the EU fails to capitalise on its current strengths, or reverts to an old growth strategy. Japan has opted to focus on 'best performance strategies'. These strategies focus on the outcomes to be achieved, rather than on which specific technologies should be used. Long-term targets are set then it is up to different stakeholders to decide how they should be met – whether by adapting existing technologies or by developing new approaches.

As an illustration, the Japanese car industry seems to have become more successful than European carmakers in producing and selling cleaner cars. In the US, despite the continuing opposition in Congress to anything under the heading of 'Kyoto', several states like California, as well as big cities and industries, are making good progress in the development and implementation of strategies for sustainable development. One example is that General Electric recently announced its intention to refocus its production strategy towards sustainability goals, doubling its investment in energy efficient and environmental technologies. In the developing world, China has now declared a new orientation, 'towards a harmonious society', which seems to be a Chinese version of a strategy for sustainable development.

Despite the difficulties, the British presidency could initiate action to translate these principles into a credible strategy, and to advance their implementation.

1. Define sustainable development as a smart growth strategy.

Countries in other parts of the world are looking for more sustainable patterns of production. The EU should position itself as the leading advocate of more resource efficient production. This means that member-states should define the new strategy not as a regulation or deregulation strategy, but as a technology and investment strategy, or a 'smart growth strategy', to adopt the new buzzword. Therefore the EU should openly embrace the idea of sustainable development as the way forward for the European economy. It should also make it clear that this means much more than a simple 'green' agenda. To be at the forefront of a 'sustainable strategy revolution' could also bring significant commercial benefits to the EU, provided it manages to convince its global partners of the necessity to tackle global warming. That is exactly what member-states stated at the G8 summit in Gleneagles last July:

> "Over the next 25 years, an estimated $16 trillion will need to be invested in the world's energy systems. According to the IEA [the International Energy Agency, a quasi-governmental agency], there are significant opportunities to invest this capital cost-effectively in cleaner energy technologies and energy efficiency. Because decisions being taken today could lock in investment and increase emissions for decades to come, it is important to act wisely now."[1]

1 http://www.number-10.gov.uk/output/Page7881.asp

The EU should put an end to its hesitations and inconsistencies and finally agree on a coherent agenda for sustainable development. Economic reform is all very well, but if it is pursued at the expense of a longer-term vision of where Europe's competitive advantage lies, it can only be a palliative, not a cure. Instead, the EU should seek to become the global leader in environmentally sustainable technologies across a wide range of economic activities. For example, Denmark and Germany have emerged as world leaders in wind turbine technology, a potentially lucrative market as countries seek to fulfil their Kyoto targets. Emphasising the economic opportunities would help to give the EU's sustainable development agenda credibility.

What is missing, however, is real political momentum and leadership. Europe's leaders need to seize the opportunity of the re-launch of the strategy to place sustainable development at the heart of the redefinition of the European social model. That they hesitate to do so may be because 'social' and 'environmental' are seen as inimical to growth. Yet properly applied, these concepts can reinforce it and provide new market opportunities.

2. Integrate economic, social and environmental policies into one comprehensive strategy and strengthen horizontal functions in all public policy making.

The EU now has a chance to correct the mistake it made in 2003, when it decided to streamline its economic and employment policies in a single mechanism which excluded social policy and the environment. At the time, bringing together economic and employment guidelines was, rightly, seen as an advance. Yet by leaving the other dimensions out of the picture, an opportunity was missed. Furthermore, the EU needs to ensure that the three dimensions of sustainable development are effectively integrated and made mutually supportive. To this end, it needs to strengthen the mechanisms for co-ordinating these three dimensions across policy domains at all levels in the Commission, in the Council and in national governments. National sectoral ministries and their equivalents in the European Commission need to be complemented by new agencies or forms of co-operation capable of cutting across vested interests. The answer may lie with the President of the Commission and national leaders taking primary responsibility for the overall co-ordination of these policies.

3. Clarify the means.

Neither the Lisbon agenda launched five years ago, nor the strategy established in Gothenburg in 2001, have delivered convincing results. The main reason for this is the absence of resources and the lack of sticks and carrots to cajole member-states into delivering. Therefore, what is needed is a judicious mix of focused regulatory intervention and support in the form of targeted public investment for innovative technologies. Many of solutions can readily be identified. For example, the EU needs to phase-out inappropriate subsidies that encourage the 'wrong' sorts of production. It needs to change any regulation which, in practice, inhibit innovation and oppose any entrenched interests. The EU should also encourage and support the European Investment Bank in fulfilling its remit to try to plug gaps in private sector financing for innovative projects.

The new Environmental Technologies Action Plan (ETAP), agreed in 2004, is full of ambitious aims for pushing forward smart growth, but is invisible outside the expert groups that have the mandates to implement it. ETAP was established as a means of setting priorities for how the EU could advance the environmental leg of sustainable development through technologies that reduce polluting processes and stimulate new forms of production. This is more than a 'green manifesto' – it could bring potentially significant benefits to the EU in terms of employment and growth, while also assuring environment protection, if EU member-states fully support its goals.

Member-states will need to provide the EU with adequate funding if they want this action plan in particular, and the new sustainable development strategy in general, to deliver. Therefore member-states should avoid the easy ways out of the impasse surrounding the EU budget and ensure that growth initiatives, in particular those promoting 'smart growth', are sufficiently supported. The EU, in short, needs to commit, financially, as well as politically, to turning rhetoric on sustainable growth into concrete action. There is no shortage of potentially viable projects, whether in developing alternatives to fossil fuels or new materials that will allow buildings to be more environmentally-friendly. But European researchers and companies need much more of the financial help and political commitment that, at present, EU governments are loath to provide, if they are to develop and multiply such initiatives.

Tony Blair, as he reaches the twilight of his prime ministership, is reported to be concerned about his legacy. Would being remembered as the godfather of 'smart growth' do?

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