

Presentation of Christian Hudson, DG Environment, European Commission

Good morning, **Robin Miese** asked me to step in to deliver this presentation. Both he and I are from Directorate General Environment in the European Commission, where on Monday, we set up a Task Force to deliver policy to take us in the long-term to eco-efficiency. We call that resource-efficiency, but for our purposes today that is eco-efficiency.

A Task Force in the Commission is a way to re-allocate resources, and its formation reflects the priority that we place on eco-efficiency.

We aim to put in place policy to take us to an eco-efficient economy, beyond 2020. We regard this policy as in many ways identical to the policy needed to drive eco-innovation – as eco-innovation across the whole economy is the process by which we reach an eco-efficient economy.

I have been working on policy in this area for some years, helped shape the EU's economic strategy to make it greener and it will be leading on the provision of **the content** of our policy strategy on eco-efficiency to take us to 2020. This is why I am particularly glad to be here, hearing your thoughts on how we can do that. Over the next 12 months the Commission will publish a series of strategy papers on how to shape the economy for 2020 and beyond. These should all align to put in place a coherent policy for a more eco-efficient economy in 2020.

I have tried to condense down my message into a few sentences.

1. The European Commission has set increased **eco-efficiency as one of its main economic priorities** and the various countries of the EU have politically signed up to that agenda. What does this mean? It certainly doesn't mean that eco-efficiency will be achieved. It means that there is a very significant opportunity to go beyond what has been achieved so far, to put in place the policy needed for eco-efficiency.

2. That we can see many **blocks which could prevent** us from reaching an eco-efficient economy – and some of those are analytical. Some of those analytical blocks are from an absence of research into particular areas, and so a lack of information. Some of those blocks are from inertia in schools of thought – particularly economics – that shape political and economic discourse even when they are not providing the guidance that we need. The view I have from the Commission is that, if we are to be successful in creating the policy for eco-efficiency, we need your help to remove both forms of blocks.

Let me give you more detail on these points.

I'll tell you more about what the European Commission's line is on Eco-Efficiency, and particularly **Commissioner Potocnik's view**. Commissioner Potocnik is really driving the agenda in the Commission. He is a pragmatist, an economist and spent the last five years as the Commissioner driving Innovation policy. Those 3 characteristics will pretty much define policy on eco-efficiency under his influence. In short:

Firstly, we recognise that environment policy has **tended to chase** environmental problems caused by economic activity, running to catch up, and only succeeding in some areas. That approach will not be enough to succeed to achieve our objectives given the extent of environmental pressures from growth in global economic activity. We must do more than chase the economy, we must steer it to deliver a green economy.

Second, this can not be done by trying to **fight the markets** – the market system is too strong, in terms of activity and politically. So, we must shape the playing field for market activity so harness the power of the markets to deliver the scale of innovation needed for an eco-efficient economy. I mean innovation here in both technological and behavioural patterns, including business models.

The perspective I have on this, is that, if we are to achieve change in markets, we need to **overcome inertia** in both the economic and political systems. We are aiming to put in place an eco-efficient economy in the future. Notionally, this should be easy – as the future doesn't yet exist, so we are not trying to change something that is fixed. There are many alternative achievable futures from the starting point we are now at. But, it will not be easy. There is inertia in the economy, from infrastructure, consumption patterns, business models – and also in the legislative framework. People – and many businesses – base their view of the future on the current status quo – make plans on that basis and then resist change that would take us to a different potential future.

We need to overcome all this inertia. There is a strong link between the political and economic inertia – existing economic structures drive policy, and policy shapes the economic structures. So, for success, we must try to change both at the same time – or we may not be able to change either sufficiently.

This will take policy which delivers, either directly or indirectly:

- Investment – either public or private – in **the infrastructure** needed for a green economy,

- The **right market signals** that change consumption patterns and drive innovation in business models – internalising externalities, abolishing harmful subsidies.
- Removal of **supply side blocks** to provision of eco-efficient goods and services – for example skill shortages; and
- Increasing shifts to eco-efficiency from across the **whole supply and production side** of the economy by working with business.

However, even this may not be enough – I'll come back to that later.

You might also ask – **what's new?** Isn't this what environment policy and eco-innovation policy has been doing for years?

And you're right to ask that question – but the difference is in the way that we go beyond what has been done:

The first difference is the change in the chances of success of the Commission going further beyond the use of environment policy instruments to **get integration** of environment considerations into other policy areas.

One of the reasons that has held back a green economy over the last couple of decades has been the lack of integration of different policy streams. Industrial policy, Agricultural policy, Taxation policy and Environmental policy have not been coherent.

In part this is due to political economy – each minister and ministry serving a narrow set of political interests. There is a greater understanding now that there is no sense in trying to create separate, potentially conflicting goals: -

The **trends in resources**, the understanding of the physical and environmental constraints of the planet as global economic growth and the existing size of sectors of the economy based on delivering 'green' goods and services are sufficiently well known for there to be weight behind a move to a green economy which simultaneously meets coherent economic and environmental goals.

The economic crisis and the public budget constraints that come with it offer chances to deliver integration – for example in the removal of environmentally harmful subsidies to get prices right.

A second change of emphasis compared to past environment policy will be the attempt to take a **lead market approach to the economy**.

As Commissioner for Innovation, Commissioner Potocnik applied the concept of lead markets. That idea is that, as both investors and consumers have inertia in their behaviour, to create a step change in innovation, you have to stimulate both the demand and supply of an innovative market at the same time. Investors don't commercialise technology if they don't see markets, and purchasers don't buy technologies that aren't on the market. Simultaneous application of policy can overcome that problem. For example, on eco-innovation policy, we have tended to do too little on the demand side – that will change.

That thinking can be applied to the economy as a whole – to drive eco-innovation across the whole economy. We must stimulate a **future long-term view – of 2020 and 2050**, that can be aimed towards, whilst giving it credibility by introducing the policy that will remove the blocks to achieving it. That will change people's business models and political expectations.

That will mean changing not just environment policy, but all the policies which affect the economic playing field. That is what the Commission has committed to. President Barroso has talked of a 'new industrial revolution'. This needs to be put into practice.

Third and last point is the approach we take. Text books say that the best way to tackle environmental problems is to tackle environmental harm at its source with policy intervention. We should do that where we can. But where political or policy reasons prevent this, we must do more to look at the indirect **drivers for environmental harm**, working to change the decisions up or down the supply chain that drive the environmental harm. So, for example, reducing the use of metals to reduce the fossil fuel embedded impacts. This will require the application of the full range of policy impacts at EU, national and regional level.

That's obviously ambitious talk – this is why it might also be realistic.

The EU has been discussing an economic strategy for the period to 2020 – the correctly named 'Europe 2020 Strategy'. This has already been debated by Member States and will be formally adopted by Member States at the end of this month. In it, the EU will set the goal of a smart, sustainable, inclusive economy. As ever the word 'sustainable' there may mean different things to different people – but the text makes clear this is a green definition for jobs and growth that also involves decoupling of growth from resource use.

We now have to put in place the policy that delivers that. – In the next 12 months the Commission will publish a series of policy documents which are related to these goals – and to eco-efficiency – on industrial policy, on research and innovation policy, on regional policy and getting the right skills for the right

jobs. Discussions on reform of the Common Agricultural Policy and the shape of the next EU Budget – also both crucial to eco-efficiency have started.

In June next year the Commission will set out a Road Map to a Resource Efficient, Low Carbon Economy for 2020.

The Commission is not the omnipotent megalith that it might seem from the outside – and these strategy documents will not be as good as they need to be without outside input. So I urge you to do all you can to input into these policies, where given the opportunity.

One key area here is on the analytical blocks that I mentioned as my second point: these are the ones identified in the draft Conference Paper. I pick out the ones that are causing me the most problems:

How do we convincingly model or estimate **economy wide rebound effects?** – the Jevons Paradox and the Khazzam-Brookes postulate mentioned by Gert Jan – because this is necessary to convince policy makers that it is necessary to tackle these effects. Information for energy efficiency gives wide ranging estimates. For resources as a whole – I presume, that the effect is much greater, as more substitution between a wider range of inputs. I don't know of much information on this,

How do we tackle **short-termism** as a driver for environmental degradation? Even if we made markets work and internalised all externalities, how far would we get in producing a sustainable economy – given the behaviours in business, politics and consumer behaviour that gives insufficient weight to the future, and future generations and that people making decisions do not behave as the rational optimisers modelled by economics? How significant is this problem and what can be done at policy level to tackle it? How do we make the economic case for this – it seems to fall outside our 'market failure' models of policy intervention,

Lastly, on **consumer behaviour**. I believe that to change markets sufficiently, we need to change consumer behaviour. Behavioural Economics and marketing tell us that people's preferences aren't fixed, which offers near zero economic cost behavioural change options. We've looked at this, there is not enough practical research on how consumers respond to different nudges. We are currently running a study to try to stimulate greater research in this area, so that we can apply it to change behaviours and marketing practices. Some of you might be the target audience for that. Please have a look at this link:

Then picking up on a point made by Gjalte. We will only progress if we do break out of our silos and integrate the kind of thinking being discussed here more widely. That needs to be done at all levels – and we can all have a role. As Gjalte says "Spread the message"

And if I have time for a quick comment on the use of the term 'Degrowth'. I am not sure it is a helpful term. 'Growth' is effectively a shorthand for: jobs, reduction of public deficits, individuals' feelings of personal progress and CEOs' route to share price success. To say that 'degrowth' is wanted sounds as though you are against those things. This is unlikely to be effective at winning influence. The Climate Action Commissioner, Connie Hedegaard, last week was explicit in rejecting degrowth as a goal.

I find it more helpful to talk of growth of the quality of life, so a change in the composition of growth – the growth of provision of private and public services, and leisure activities that provides increases in satisfaction and plenty of opportunity for full employment and profit. In the Commission, we have an agenda to deliver supplementary indicators of economic success that go beyond GDP, to try to shape this debate.