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The Contribution of 14 European Think Tanks to the Spanish, Belgian and Hungarian Trio Presidency of the European Union

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The Challenge of Building a Low-Carbon European Future: Combining Economic, Social and Environmental Policies into a Post-2010 Lisbon Strategy

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POST LISBON STRATEGY

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Ten years after the launching of the Lisbon Strategy, the EU needs to set new guidelines for assuring a sustainable path of prosperity in the coming decade, in spite of the many factors that work against such an important goal: global economic crisis, lassitude created by the 2000 Lisbon Strategy, lack of member states' involvement and a deficit of communication on the issue.

Until recently, little attention has been paid to this issue. The Swedish Presidency had the intention to launch a debate on the post-Lisbon Strategy during its six month mandate but the ratification of the Lisbon Treaty and the preparation of the Copenhagen Climate Change Summit eventually proved higher priorities. The launch of the Commission's consultation on EU-2020 has attracted public attention to the question, but it is quite likely that in the coming months national governments' priorities will stay focused on the short-term – how to exit from the crisis.

And yet, having reached in December 2008 an agreement on the energy and climate change package – the so-called "20-20-20 for 2020" – Europeans are more than ever before in need of a common strategy to promote prosperity and sustainable growth. Indeed, Europe's challenge for the coming decade is to honour the EU's commitments on climate change mitigation while maintaining the competitiveness of European economies and securing social cohesion. In doing so, they should avoid repeating the mistakes of the Lisbon Strategy – very ambitious goals but weak implementation capacity. They should nevertheless retain the founding philosophy of 'Lisbon': the importance of adopting an integrated approach, fostering positive synergies between economic, social and environmental action.

The post-Lisbon Strategy needs to be strongly linked to this new ambitious climate change target Europeans have set for themselves. Europeans have to end 'Lisbon as usual' by putting at the core of a European agenda the priority of building a low-carbon economy.

Creating a competitive and socially cohesive low-carbon EU economy: in search of a new paradigm for the post-Lisbon Strategy

There is growing consensus that shifting Europe into a low-carbon economy will require more than target-setting. Due to the uncertainty on long-term carbon prices and the high risk of investments in next-generation green technologies, market forces alone will not promote the level of investment in eco-innovation which is needed to switch quickly to a low-carbon production system. Even a well-known pro-market review such as *The Economist* recognised this point in a recent article commenting on the UK climate change plan ("questioning the invisible hand", *The Economist,* 17th October 2009). Thus, public intervention is required in order to establish a predictable and significantly rising price for carbon that incentives long-term private investment in carbon reduction (something that the EU ETS system – European Union Greenhouse Gas Emission Trading System – has not so far attained) and support research and innovation in green technologies to promote their development and commercialisation.

One should take into account that technological innovation and energy efficiency gains will not be sufficient to provoke major emissions abatement. Witness what has happened in the field of transport: from 1996 to 2006, emissions from new cars have decreased by 12.4% thanks to improvements in fuel efficiency. Yet over the same period car ownership in the EU-27 has increased by 26% and passenger car use – calculated in terms of km per passenger – has risen by 18%. As a result, transport greenhouse gas emissions rose by 26% between 1990 and 2007 (EEA 2009). In order to reach the EU emission reduction targets for 2020, it will be necessary to provoke changes in both production and consumption patterns. This will imply the use of pricing measures and subsidies to influence consumers' behaviour (particularly on transport and on household energy use) but also structural actions to promote more sustainable models of consumption and distribution (i.e. a heavy investment in urban and intercity public transportation, regulations to promote environmentally-friendly products and services, a deliberate strategy to promote a switch away from air and road freight transport towards more environmentally efficient rail and maritime freight transport).

While the EU commitment to GHG (greenhouse gas) emissions abatement is frequently portrayed as a cost for economic competitiveness, it can also be seen as an opportunity. A major investment on green technologies can provide a first-mover advantage in global markets to those companies and countries which are quickest to develop new green products or services. Europe already has a lead in several 'green economy' areas, such as wind turbine technology, waste recycling and water treatment systems. It will be important to maintain this comparative advantage – through actions such as support to on-going innovation and research or help to export commercialisation – and to forecast the opportunities of creating an advantage in new emerging green market niches. Even if Europeans succeed in exploiting these new opportunities, in the short-term the European climate change package will imply a loss of international competitiveness for some EU firms. In effect, the risk of dumping created by non-European firms that are not be submitted to the same burden is high, particularly in energy-intensive sectors. The final post-Kyoto agreement expected by December 2012 will help Europeans anticipate the kind of external economic competitiveness they should encounter while operating their transition towards a low-carbon economy. Yet, considering the outcome of the Copenhagen Summit, it is quite probable that the final post-Kyoto agreement won't give real and satisfactory transparency on the goodwill and capacity of EU's main commercial competitors to operate a similar transition to low-carbon economy and to limit environmental dumping. If this happens, the EU will have to find alternative ways to force the engagement of third parties in the fight against climate change and to protect the competitiveness of the EU enterprises. The possibility of creating an EU carbon tax on imports will have to be put on the table.

The transition towards a low-carbon economy will provoke major changes in our industrial structures. Processes of industrial restructuring will entail high costs, not only for the workers concerned but for the local or regional economies. This might endanger EU's social cohesion, which is not only a common EU good but an essential characteristic of the European social model. Measures to anticipate changes will be required, as well as accompanying policies to reduce the social costs to a minimum, by favouring the transition of workers to other jobs and promoting the economic diversification of the affected areas.

Particular attention will then have to be paid to the impact of climate change policies on employment. According to a recent ETUC / SDA study *(Climate change and employment 2008)*, the measures to enable the EU to reduce its CO_2 emissions by some 40% by 2030 will not globally destroy jobs, but they will substantially change the supply and demand of jobs and qualifications. Workers will have to be redirected from energy-intensive sectors (such as coal and steel industry) to green sector with high employability (public transportation, renewal energies, sustainable building and construction). This transition will not be without difficulty: there is a risk that displaced workers will be trapped in structural unemployment if activation measures and social protection schemes are not correctly anticipated and followed up.

Apart from a redirection of workers from high carbon to low-carbon sectors, the transition towards a low-carbon economy will lead to a redefinition of skills across almost all sectors. In particular, increasing demand for 'green' jobs will lead to a shortage of certain environmental skills. In principle, market forces are expected to promote an increase of private investment in these skills. Yet, several sectors – such as renewable energy, energy and resource efficiency, building renovation, etc. – are already facing skill shortages and there are signs that this is hampering their development. Removing current skill shortages and anticipating new skill demands will be crucial to facilitate the greening of EU economies.

Finally, as pointed out by various experts, the transition towards a low-carbon economy will entail socially regressive effects. In effect, many of the necessary measures to reduce greenhouse gas emissions – in particular fuel taxation – will penalise more those least well-off in our societies, as they spend more in fuel consumption in relative terms. In order to ensure that our low-carbon future is not inequitable, it will be essential to introduce compensatory measures to offset these regressive impacts. The latter is both right from a moral point of view and necessary from a strategic perspective: if we do not address the social effects of the transition towards a low-carbon economy, it will be very difficult to ensure the political consensus which is required to support such a transformation.

From compensatory and penalising social and environmental policies to productive integrated policies

Shifting Europe in a low-carbon direction will require a comprehensive and coherent strategy. So far, the EU action in this field has been piecemeal and sector-based, and it has mostly consisted of the establishment of targets and guidelines for carbon mitigation, leaving implementation to member states. It is time to recognise that de-carbonating our economy requires a fundamental re-think of our model of growth, and thus of the whole range of policies currently being implemented in pursuit of development. Hence the need to place climate change concerns at the centre of a post-Lisbon Strategy of development and growth.

The current Lisbon Strategy pays little attention to climate change considerations. Since 2001, it is supposed to integrate an environmental dimension – in the form of the so-called Sustainable Development Strategy (SDS). Yet, in practice the two strategies (SDS and Lisbon) have been kept as separate processes and environmental concerns have been largely excluded from the Lisbon process. On top of that, the balance between the social and the economic dimension of the strategy, which characterised the original version of Lisbon, has been broken with the 2005 decision to re-focus the Lisbon Strategy on growth and jobs. At present, the Lisbon Strategy is essentially focused on promoting growth and expanding employment, from which social and environmental benefits are expected to flow automatically.

Ironically we need to come back to the initial philosophy of the Lisbon Strategy: fostering synergies between social, economic and environmental dimensions. Social action should not be designed in a strict compensatory way but also in a way to become a productivity asset. And it is important as well to design environmental action in a way to create opportunity for growth. In a similar manner, there is a need to explore the ways to make social and environmental not only compatible, but mutually reinforcing. A low-carbon future will entail social risks, but also opportunities for job creation. Inversely, employment and education policy, if well-geared, will facilitate the transition towards a low-carbon economy. Thinking on the social / environmental synergies is particularly important, as there has been a lack of reflection on this topic so far. Three out of the seven objectives of the current SDS are 'social' – public health, social inclusion and global poverty – but they are those which have received less attention so far. And among the 57 indicators used to guide the implementation of the Strategy, none of them represents the interaction between the social and the environmental dimension.

Finally, it is important to take into account that synergies do not come automatically. They need to be promoted through the use of instruments and indicators designed appropriately. Too often, the Lisbon Strategy has led to an inventory of possible instruments without a clear strategy for a coordinated use of them. To promote a truly integrated approach, it is absolutely essential to solve these problems of coordination.

Recommendations to the Trio Presidency

A new strategic goal

The ultimate aim of the post-Lisbon Strategy should not be to convert Europe into "the most competitive and dynamic knowledge economy in the world". The new programmatic slogan should be "to become the most competitive, socially-just and sustainable economy in the world".

Timetable and duration

The post-Lisbon Strategy will not succeed if it is not built on a good analysis of the economic and social consequences of the crisis and the challenges of the energy and climate package. Forging consensus on a new analysis takes time, but it is essential to ensure the political legitimacy of the new Strategy. Introducing small amendments to the actual Strategy is therefore a recipe for failure. The Trio Presidency should modify the timetable for the definition of the new Strategy: the 2010 Spring European Council would preferably be dedicated to discussing national recovery plans and exit strategies from the crisis while an additional year would be needed to build an active political consensus on a long-term sustainable strategy for growth and jobs. The duration of the new Strategy should also be reviewed. Shifting Europe in a low-carbon direction will require a long time horizon. While Lisbon is a medium-term Strategy (10 years), the EU commitments on climate change mitigation adopt a medium to long-term view (10-40 years). If we want to place climate change concerns at the centre of the new Strategy, then we may have to envisage an extension of the calendar, with the establishment of objectives at both the medium-term (2020) and long-term (2050) horizons.

"Stick and carrot"

The exchange of best practice – the basic tool of the Lisbon Strategy so far – will definitely be inadequate to achieve the "3x20 for 2020" agreement sustainable targets. The Spanish government, which is the first to chair the presidency of the ministries council, should invite member states to propose ways of combining new EU regulation pressure and national initiatives adapted to national specificities.

Simultaneously, efforts should be made for more and better use of EU funding. As the Stern Report adverts, the short-to medium-term costs of investing in mitigation are likely to be high: hence, a strategy solely based on the 'stick' is unlikely to work: there is a need to provide some 'carrot' – that is, economic support to member states in their efforts to de-carbonise their economies. It is therefore important to significantly increase the amount of EU resources devoted to finance low-carbon energy and transport infrastructures and research on green technologies. In addition, sustainable conditionality should be integrated in the selective process of the European Globalisation Adjustment Fund. The budget of this fund is still symbolic and its existence is hardly known: it should be boosted in order to become a helpful support of a new sustainable strategy. Finally, revenues from the ETS system should be clearly earmarked to action on climate change, and part of these resources should be used at the EU level and allocated in a redistributive way (i.e. more funding for poorer countries and / or for regions or groups most affected by mitigation measures).

Instruments and indicators to promote synergies

As said before, ensuring a truly integrated strategy requires changes in the modes of governance as well as in the indicators. Social and environmental objectives should form part of the main integrated guidelines. It is also paramount to build up a system of monitoring and ex-post evaluation designed to assess whether the mutually reinforcing effects between economic, social and environmental policies occur in practice.

Making the strategy more 'sexy'

The Lisbon Strategy suffered from the beginning from its very technocratic definition. Should the 27 agree on a new strategy, they must be careful to deliver a comprehensible definition and explanation of what is at stake, and they must commit themselves to invest in an active communication campaign addressed to economic actors at all levels. A renewed strategy should also be given a new name in order not to be handicapped by the "Lisbon Strategy fatigue".