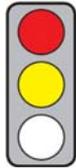


## KEY ISSUES

**Objective of the Communication:** The Commission presents measures to encourage innovation in the green sector (eco-innovation).

**Parties affected:** Overall economy.



**Pros:** Product labelling, e.g. regarding energy consumption, can raise awareness of environmental characteristics.

**Cons:** (1) The chosen definition of eco-innovation conceals the key target conflicts and various issues that require consideration for the “responsible use of natural resources”.

(2) The Commission explains neither why it thinks that eco-innovation is being marketed too slowly nor why eco-innovations should be given more support than other innovations.

(3) The planned further development of environmental legislation and the development of product standards and performance targets carry the threat of serious intervention into production processes.

## CONTENT

### Title

**Communication COM(2011) 899** of 15 December 2011: **Innovation for a Sustainable Future** – the Eco-innovation Action Plan (**Eco-AP**)

### Brief Summary

#### ► Background and targets

- An Eco-innovation is “any form of innovation resulting in or aiming at significant and demonstrable progress towards the goal of sustainable development” through reducing environmental impacts, enhancing resilience to environmental pressures or achieving a more efficient and responsible use of natural resources (p. 2).
- The Commission estimates the annual turnover of “European eco-industries” at 319 billion euro. This corresponds to 2.5% of EU gross domestic product (GDP).
- In the past two years, 45% of the European companies operating in manufacturing, agriculture, water and food services have eco-innovated.
- Apart from in the energy and climate protection sectors, eco-innovation has been promoted “relatively slowly” (p. 3).
- According to the Commission, eco-innovation needs to be accelerated in order to boost resource productivity, efficiency and environmental protection (p. 3).

#### ► Barriers and drivers of Eco-innovations

- The Commission quotes major barriers to eco-innovation from a recent Eurobarometer survey (Flash Eurobarometer No. 315, March 2011):
  - insufficient access to existing subsidies and fiscal incentives
  - lack of funds within the enterprise
  - uncertain return on investment or a too long payback period for eco-innovation
  - uncertain market demand
- It stresses the fact that such barriers “are similar to those faced by innovative businesses at large”. However, they “tend to be more severe” for businesses focusing on eco-innovation (p. 4).
- As the drivers of eco-innovation, the Commission identifies:
  - good business partners
  - current high material prices
  - current high energy prices
  - expected future increases in energy prices

#### ► Environmental legislation to promote Eco-innovation

- EU environmental legislation has already helped create Eco-innovation in the past.
- Where environmental legislation contains “insufficiently ambitious or outdated standards”, it may be a barrier to Eco-innovation (p. 7).
- In 2012, the Commission wishes to develop a method with which the impacts of environmental provisions on Eco-innovation can be assessed (p. 8).

- The Commission wishes to apply the following implementing measures to promote eco-innovation:
  - End-of-Life Vehicles Directive (2000/53/EC)
  - WEEE Directive (2002/96/EC, s. [CEP Policy Brief](#) for the proposed recast)
  - RoHS Directive (2011/65/EU)
  - Directive on Batteries and Accumulators (2006/66/EC)
  - Packaging Directive (2006/66/EC).

► **Demonstration projects**

- Although certain technologies are available, they are not applied to marketable products. In order to close this gap, the Commission wishes to support demonstration projects for eco-innovations.
- By the end of 2012, the Commission wishes to select demonstration projects to support the following sectors: demolition waste, remediation of soil, sediments and ground water, wastewater and sludge treatment, pesticides and fertilisers in agriculture, recycling of raw material in waste (“urban mining”), waste electric and electronic equipment, climate change adaptation.
- As of 2014, it wishes to support demonstration projects under the framework programme for research and innovation from 2014 to 2020 [Communication “Horizon 2020”, COM(2011) 808].

► **Standards and performance targets**

- “Ambitious” standards and performance targets are a powerful tool for supporting innovation (p. 9).
- The Commission lists the following areas as an example of potential standards and performance targets:
  - drinking water and sewage collecting system pipes;
  - possible waste treatment activities;
  - construction materials and insulation of buildings.
- Labelling schemes which are already in use for household appliances can complement the promotion of eco-innovation.
- Together with the international standardisation bodies and the Member States, the Commission wishes to identify those areas in which the development of standards and performance targets can support eco-innovation.

► **Support for SME**

- Subsidies, in particular for small and medium-sized enterprises (SME), are needed and justified in order to “accelerate” the eco-innovation process (p. 10). This is due to the fact that:
  - potential investors treat eco-innovation in the same way as other investments, in particular with regard to the return on investment and the risk;
  - the reduction of the environmental impact is not taken sufficiently into consideration during private investment calculations.
- By means of supplementary policy measures, the Commission wishes to improve investment readiness, networking opportunities and “confidence in eco-innovation” (p. 10).
- The Commission intends to:
  - establish in 2012 a European network of eco-innovation financiers and investors;
  - help eco-innovative European enterprises gain better access to global markets;
  - strengthen confidence in new environmental technologies through a voluntary pilot programme on environmental technology verification (ETV);
  - work as of 2014 with the Member States and regions to support eco-innovation within the scope of the Cohesion Policy;
  - develop “innovative financial instruments” from EU funds to subsidise eco-innovation;
  - help SME and the financial sector develop “bankable projects” (p. 12).

► **Skilled workers**

- “New skills” are required by companies to facilitate the transition to a greener economy (p. 13).
- The Commission wishes to establish the “EU Skills Panorama” that provides information on the supply and demand of skilled workers and increases their mobility. The specific focus will be on green skills (p. 14).

► **Exchange among Stakeholders**

- An “Eco-innovation High Level Multi-stakeholder Steering Group” is to be set-up in which stakeholders from companies and Member States adopt measures to promote eco-innovation.
- In “European Innovation Partnerships”, all stakeholders of a value chain participate in the policy dialogues on eco-innovation. Thus the Commission will speed up “breakthrough innovations to solve specific societal challenges” (p. 14).
  - The Commission is considering encouraging private and public procurement to promote eco-innovation. To this end, it wishes to bring together the affected stakeholders in a network to test tender specifications in view of eco-innovation.
  - In the area of bio-gas from bio-waste, “sustainable chemistry” and the use of the environment through “eco-system services” (e.g. water purification through natural filtration), the Commission is considering bundling the demand for supportive measures.

### ► Member States and EU Commission

- Together with the Commission, the Member States are to agree on voluntary eco-innovation national roadmaps, in which they outline their strategies for promoting eco-innovation.
- The Commission will monitor measures by the EU and Member States by way of an “Eco-Innovation Scoreboard”.

### Statement on Subsidiarity by the Commission

The Commission does not address the issue of subsidiarity in the Communication.

### Policy Context

The “Europe 2020” Strategy is to turn the EU into a “smart, sustainable and integrative economy” [COM(2010) 2020, p. 3; s. [CEP Policy Brief](#)]. To his end, the “flagship initiative innovation union” [COM(2010) 546, s. [CEP Policy Brief](#)] is to improve the framework conditions for research and innovation. The “flagship initiative resource-efficient Europe” [COM(2011) 21] contains medium and long-term targets and measures to increase resource efficiency. These flagship initiatives are gradually being substantiated, for instance through the EU 2020 energy strategy initiative [COM(2010) 639; s. [CEP Policy Brief](#)], the low-carbon economy initiative [COM(2011) 112, s. [CEP Policy Brief](#)] and the initiative for roadmap resource efficiency [COM(2011) 571, s. [CEP Policy Brief](#)]. The flagship initiative is complemented by the Transport White Paper [COM(2011) 144; s. [CEP Policy Brief](#)]. In addition, the eco-innovation plan has been published.

### Options for Influencing the Political Process

Leading Directorate General:	DG Environmental Affairs
Consultation Procedure:	A consultation procedure is not planned.

## ASSESSMENT

### Economic Impact Assessment

#### Ordoliberal Assessment

**The somewhat broadly defined term “eco-innovation” conceals the possible target conflicts and key issues that have to be weighed up and considered in connection with the “responsible use of natural resources”.** For instance, modifications in the genetic material of plants can lead to enhanced “resilience to environmental pressures”. The use of poisonous substances can result in requiring less energy during production to achieve the desired result (e.g. arsenic in glass production, mercury in compact fluorescence lights). Instead of hoping for wholesale “progress”, the Commission would have done better to refer to the various issues that require serious consideration.

**The Commission also fails to explain both why eco-innovations should be given more support than other innovations (e.g. the health sector) and why exactly it thinks eco-innovations are being marketed too slowly.**

**As new knowledge and with it the consequences of innovation can hardly be foreseen, it is wrong to promote innovative behaviour in certain, politically defined areas only.** Instead, the Commission should show an interest in strengthening an open-result innovation culture.

The development of innovative business models, products and services is in the interest of companies. The task of politics is to design the framework conditions allowing for innovation activities in companies. In the EU, not all Member States are equally successful in doing so, as can be seen in the statistics for patent registration. In 2009, an average of 119 patents per 1 million inhabitants were registered with the European patent registry. In Germany there were about 295 patents and in Sweden there were even 332, whereas it was only 2 in Romania and about 1 in Bulgaria. The Commission does not address these inequalities.

#### Impact on Efficiency and Individual Freedom of Choice

**The Commission** itself explains that the introduction of eco-innovation is generally associated with the same barriers as for other types of innovation. However, the Commission **fails to** provide any valid explanation as to its statement that the barriers to eco-innovation are often more difficult to overcome. Neither does it **explain why European tax-payers should run risks when promoting innovation that private investors avoid.**

**Labelling systems**, which proved reasonable with household appliances such as washing machines and refrigerators, can help **raise awareness of positive environmental characteristics.** However, they also do not make transparent the serious considerations that one has to weigh up, such as the application of poisonous substances and energy consumption.

**The planned further development of environmental legislation** – in as much as it impedes eco-innovation – and the development of product standards and performance targets can advance innovation. However, this also **carries with it the risk of serious intervention into the production processes.** For the Eco-design

Directive [2009/125/EC, s. [CEP Policy Brief](#)] explicitly entitles the Commission to not only prescribe product characteristics but also to intervene in the production process, e.g. regarding water and material consumption, as well as noise pollution.

The instrumentalisation of public procurement for the promotion of eco-innovation leads to massive distortion of competition in favour of allegedly eco-innovative companies and throws the doors wide open to a subtle form of protectionism. This is particularly problematic in terms of the necessary considerations that have to be made regarding the environmental characteristics of products.

#### Impact on Growth and Employment

Good and skilled workers are essential for an innovative environment and for growth and employment. There is nothing wrong with Member States and companies exchanging the supply and demand for such workers through an “EU Skills Panorama”; however, “green” jobs should not be given priority, since even politicians do not know which skills will be needed and in which sectors in future.

#### Impact on Europe as a Business Location

An innovation-friendly environment is good for the business location Europe. A high political impact on the form of innovation activities increases the quality of the business location for the companies of those sectors which are in line with the political criteria; that of others is reduced, since they too must pay the price of increased public expenses through taxes.

## Legal Assessment

### Competency

The EU may adopt measures to protect the environment and for a rational use of natural resources (Art. 191 (1) TFEU). Moreover, it may contribute to innovation research and technological development, whereby it may only act in a supportive manner regarding national measures (Art. 173 (3) in conjunction with Art. 2 (5) and Art. 6 TFEU). The currently foreseeable eco-innovation plans by the Commission do not exceed these limits.

### Subsidiarity

Where the targets of measures cannot be achieved by Member States but need e.g. EU-wide coordination, EU action might be in line with the principle of subsidiarity (Art. 5 (3) TEC). Whether or not this is the case can be assessed only in view of the concrete measure proposals.

### Proportionality

Currently not assessable.

### Compatibility with EU Law

Unproblematic.

### Compatibility with German Law

Unproblematic.

## Conclusion

The Commission's definition of the term “eco-innovation” conceals the key target conflicts and issues that have to be considered for the “responsible use” of natural resources. The Commission fails to explain both why it thinks eco-innovation is being marketed too slowly and why eco-innovation should be given more support than other forms of innovation. As the impact of innovation is hardly foreseeable, it is a mistake to promote innovative behaviour only in politically defined areas. Product labelling can raise awareness of environmental characteristics. The planned further development of environmental legislation and the development of product standards and performance targets carry with them the threat of serious intervention into production processes.