



BLOG POST January 31st 2024

Competitive sustainability should guide the next European Commission, not deregulation

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🕒 Reading time: 10 min





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The competitiveness of economic sectors is increasingly at the heart of discussions on European policies, both in the media and in negotiations between governments and sector representatives. This is a crash test for the Green Deal's economic promise: regaining long-term competitiveness through the transition to sustainability. Mats Engström, as a fine connoisseur of European policies, analyses their negotiation in Brussels, but also their implementation, particularly in Nordic contexts. He proposes in this blog post to explore the notion of "competitive sustainability", focusing not on short-term price competitiveness, used as an argument to stop or counter regulation, but on the dynamics of innovation and its links with the setting of clear and stable horizons for regulation. A perspective supported by economists, but also by many companies and trade unions, in a context of international competition where European standards and regulations can be a decisive asset.

Upcoming reports from Mario Draghi, Enrico Letta and the European Commission will form the basis for leaders' debate on the relationship between environmental policies and long-term competitiveness. Calls from business organisations for a regulatory pause and for extensive competitiveness checks of new EU policies are challenging the Green Deal. EU leaders should listen more to ambitious companies and to leading economists, who argue for policy mixes of regulation and green industrial policies. Science is clear: well-designed legislation can contribute to both environmental protection and to innovation that is necessary for successful economic development.

No EU legislation to reduce carbon dioxide emissions from cars. That was the demand from the European Automobile Manufacturers' Association (ACEA) in 1997. Ministers settled for a 'voluntary agreement' with the car industry. That did not work, and after some years legislation was decided on mandatory reductions, incentivising for example innovative light-weight solutions in car design.

Later, ACEA fought mandatory quotas for electric vehicles. At the same time, China moved fast forward with regulation, subsidies, and public procurement. Now the European car industry is frightened by competition from BYD and other Chinese companies. When senior policymakers from EU Member States met on September 7, 2023, ACEA had been invited to voice its concerns. The organisation asked for subsidies while in parallel criticising EU legislation.

The situation for European car manufacturers should be taken seriously. Many jobs are at stake.

But what are the lessons when it comes to the role of legislation?

China moved early. Europe lagged, much because of the resistance from business organisations. This is not the only reason why China might now outcompete some European car companies in the electric vehicle race, but it has been an important factor.

In a wider perspective, regulation has contributed to innovation and competitiveness, both in Europe and in other parts of the world. World-leading economists Daron Acemoglu and Simon Johnson state in *Power and Progress*: “*The three policy levers (carbon taxes, research subsidies, and regulations), together with pressure from consumers and civil society, led to a boost both in innovations in renewables and much larger levels of production of solar panels and wind energy.*”

The European Commission's Directorate-General for research and innovation [concludes](#) from several scientific studies that regulation is a key factor in promoting new environmental technologies. More ambitious companies often do not agree with business organisations' lowest common denominators. For example, Volvo Cars left ACEA because of the organisation's resistance to strict car emission standards.

The present push against legislation is dangerous not only for the environment, but also for [European competitiveness](#). While China and others continue to move forward, demands by the organisation Business Europe for a 'regulatory breathing space' have influenced the European People's Party to take a similar position, and President Macron in May 2023 stated that a 'regulatory pause' was needed for new EU green policies.

During the Swedish EU Presidency in the first half of 2023, conclusions were adopted calling for a reduction of 'administrative burden'. But what does that mean? Reducing reporting requirements, as the Commission has promised, is one thing. Putting the brakes on new legislation is something else. Not to speak about deleting existing ones, as is already being discussed within parts of the Commission. A case in point is the call by Swedish Prime Minister Ulf Kristersson for 'fewer rules'.

What direction at upcoming European Councils?

Somewhat hidden from public eyes, this debate is continuing within the EU Competitiveness Council. In particular, several delegations are pressing for extensive 'competitiveness checks' of new proposals, including not only legislative acts but also white papers and similar policy initiatives. There are also proposals in the Council discussions to include the amount of legislation as a negative indicator for competitiveness.

However, there seems to be no analysis on how the lack of regulation in certain areas negatively influences the commercialisation of new technologies and competitiveness, although there is clear evidence both from the OECD

and from the European Commission that more regulation sometimes is needed.

Several European companies are in fact asking for stringent legislation to create a demand for more environment-friendly products. In addition, it is well known from studies on economic development that a well-designed policy mix can support innovation and start-ups. Companies that do not yet exist should also be in the mind of policymakers.

It is to Europe's advantage that other parts of the world follow standards developed here. The 'Brussels effect' is not a myth. On the contrary, [new research](#) from the Commission clearly shows how in particular EU environmental regulations are inspiring similar rules in third countries. Europe with its ageing population and declining share of the world economy should act while it still has this power.

This is not to say that the implementation of the Green Deal is without problems. It is a huge challenge for Member States with weak administrative capacity. Long-term financing needs to be secured. Sometimes the reporting requirements can be overwhelming for small and medium-size enterprises. But these are not arguments against a strong environmental policy as such, more about the design of legislation and about sufficient measures for regional cohesion and just transitions.

It should be recognised that the European Union is already using various forms of adaptive governance. That includes reviews of existing regulations, the use of framework directives that can be more easily changed through delegated acts, flexibilities for new innovative technologies for example in the proposed revision of the industrial emissions directive, and so on. The Commission is now intensifying its effort to simplify for example reporting requirements.

Further improvements to the process of regulation are certainly possible, *inter alia* by a sound use of '[regulatory sandboxes](#)' for innovative technologies. This is certainly possible without lowering green ambitions.

However, it is also important to assess the cost of non-regulation. For example, not banning the dangerous PCB substances in time has cost the EU at least [15 billion euro](#) in later remedial action. Industry also needs common approaches across the EU for new technologies, such as the expanded use of hydrogen as an energy carrier. Joint EU standards simplify for companies compared to 27 different national regimes.

There are many other dimensions of long-term competitiveness than regulation. Investment in research and development. Access to capital. Good infrastructure. A workforce with the necessary skills. Energy costs. Trade policies. And so on.

In its March 2023 Communication on long-term competitiveness, the European Commission proposed a list of indicators capturing many of these factors. This list of 'key performance indicators' has now been discussed in the subgroups to the Competitiveness Council. The final choices and the use of them in the first Commission annual report on competitiveness will be important. Here, proposals by the [Cambridge Institute for Sustainable Leadership](#) can provide inspiration for further refinement.

In parallel, two former Italian Prime Ministers have been tasked to provide reports for the upcoming March European Council. Mario Draghi will present his work on long-term competitiveness, Enrico Letta on the state of the internal market.

How Draghi and Letta describe the link between green transitions and European competitiveness will be hugely important. Will they fall into the rhetoric of business organisations, painting a picture of 'over-regulation' and urging a slower pace in the next political five-year cycle? Or will they recognise the risk for Europe if competitors such as China forge ahead with both regulation and subsidies?

National governments are divided, judging from discussions in the Competitiveness Council and its subgroups during the autumn of 2023. Many have listened to the concerns of the business organisations while some emphasise that there is not necessarily a conflict between regulation and competitiveness.

Green industrial policies and ambitious regulation are needed

Formulating policy proposals for 'competitive sustainability' during the next five years will be key in this debate. Green industrial policies certainly have a role to play, including some subsidies, but well-designed regulation is also crucial.

The European Union has taken important steps when it comes to supporting some low-carbon technologies, including through the Green Deal Industrial Plan and the Strategic Technologies for European Platform (STEP). Such policies need strengthening, as recently described in an [ECFR publication](#).

Take the business opportunities of circular economy solutions as an example. The European Union leads the world when it comes to companies developing such technologies, both in the share of companies active in the field (32%) and as a share of green inventions. But the European Commission has identified a need for more continuous support from early research to commercialising new circular economy technologies.

The implementation of the Ecodesign for sustainable products regulation will be crucial. Will the Commission set ambitious standards on consumer products such as textiles and furniture, as well as on intermediate products such as steel and aluminium, that reduce their environmental footprint? This would encourage innovation as has already been the case with energy efficiency requirements. Or will mandatory such standards be blocked by the demands for a 'regulatory pause' and for extensive 'competitiveness checks'?

The European Union could also widen its support for demonstration and commercialisation to circular economy solutions, not only focusing on large industrial plants. A specific budget line for this in the Innovation Fund would be helpful. The European Climate, Infrastructure and Environment Executive Agency (CINEA) could be given a clearer task of convening a multitude of societal actors for system-changing green innovation. Launching 'digital product passports' is a good way of using synergies between the green and digital transitions.

In addition, public procurement of innovative solutions can play an important role. Regions and cities have significant roles in this context, but many of them will need financing after 2026 when current funding from Next Generation EU comes to an end. Several Member States also lack the financial strength to do needed public investment.

International cooperation is another important part of the puzzle. Common standards are necessary to promote sustainable circular value chains, including recycling. In this context, the European Union needs to establish true partnerships with low- and middle-income countries, allowing them to move up value chains.

Similar examples can be taken from other areas. Europe is already a world leader in several green technologies and can benefit much from a broad ecologic industrial policy. The next multiannual financial framework will be crucial for making the green transition a success story.

An important policy choice to be made

Would there be a drastic slowdown of initiatives and cumbersome, one-sided 'competitiveness checks' for every piece of new regulation, European companies risk losing out to international competitors while also losing the confidence of many citizens who still regard climate action as an important priority.

Regarding climate change, it is now or never. Europe needs to rapidly reduce its dependence on fossil fuels. This might in some aspects increase costs during the transition, but to slow down will create huge risks to economic activity in the future.

It is a question about whether to shape or to be forced to adapt—both to bigger problems later, and to competing powers setting the global rules.

The same is true for other policy areas such as workers protection, health and consumer policy. [Trade unions](#), environmental NGOs and [consumer organisations](#) have similar interests in this area.

When thinking about a positive agenda for a Green Deal 2.0, this fight over the role of legislation in the context of competitiveness is a crucial topic.

Proponents of the Green Deal could together with trade unions and consumer organisations engage more with their national governments, to avoid a brake on urgently needed new measures, or even a step back from decisions already taken. And European leaders should make decisions based on science.

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