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**2010 Jean Jacques Rousseau Lecture
The Lisbon Council**

"Resource efficiency as a driver for growth and jobs"

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*Silken Berlaymont Hotel
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SPEECH

Resource efficiency as a driver for growth and jobs

Good morning ladies and gentlemen.

Let me start with a question...

“Is it better to be a vegetarian in a Hummer... or a meat eater in a Prius?”...

That is the question I heard someone ask a few days ago, which for me summed up nicely the kind of dilemma many of us face every day in our lifestyle choices, but also the one that Europe faces as a developed economy... Assuming that we actually care about the environmental impact of our behaviour, how do we go about reducing that impact? Indeed do we even measure what that impact is?

Jean Jacques Rousseau wrote in 1762 about a “social contract”. Today I am delighted to have been asked to deliver this lecture named in his honour by the Lisbon Council. I want to use that opportunity to talk to you about a kind of environmental contract – a pact we have to make between ourselves and our environment for the good of future generations, and increasingly for the good of our own generation.

I am a Slovenian and a passionate user of the environment. I consider myself to be a very lucky man. If you have visited Slovenia you will know that my home country is a beautiful place, blessed with a rich heritage of animal and plant life. Indeed we have more of our land area registered under Natura than any other Member State – more than 35 %.

I try to get out and enjoy that heritage whenever I can. I appreciate the intrinsic beauty of nature and the way it enhances my life. I care about it; just as many other Europeans do.

But is it enough for us to care as individuals?

Of course not.

Fortunately we have legislation to limit the excesses of our behaviour, and to impose sanctions on those who pollute and damage. We have spent 40 years developing the environmental laws that have given Europeans cleaner water and air, whilst ensuring predictability and a level playing field for businesses.

Fortunately we also have some great new technologies that increase energy efficiency in our homes and transport, generate renewable energy, substitute hazardous materials and make other materials easier to recycle. As a former Commissioner for Science and Research, I know just what an impact technology can have.

But I will argue today that it's still not enough. Even if we can get the right mix of individual caring, legislation and eco-technologies, the sheer weight of the combined aspirations and lifestyles of 500 million European is just too great. Never mind the legitimate desires of many other billions on our planet to share those lifestyles.

We need to change our behaviour, as consumers and as producers. And to do that we need to make our markets work in ways which put the proper value on the resources we use. We need to provide the right incentives for resource efficiency.

Then what is resource efficiency? – I would say it is half common sense and half pragmatism. It means using less of what we have to achieve the same, or even more. It means managing our resources sustainably, throughout their life cycle, so as to reduce the environmental impact of their use. It means living, producing and consuming within the physical and biological limits of this Planet.

And so we are clear – let me tell you what resource efficiency isn't:

First: Resource efficiency is not energy efficiency. Energy is a hugely important resource, but it is not the only one. We must also consider material resources such as metals, minerals and food, and natural systems which provide services, including clean air and water.

Second: Resource efficient growth is not the same thing as low carbon growth. Of course if we use our resources wisely we will generally emit less carbon, but the concept of resource efficiency is again wider. In some cases there can even be trade offs between carbon efficiency and wider resource efficiency: should we flood a valley to produce hydro-power?

Third: resource efficiency isn't just about promoting the growth of a lucrative niche of eco-innovation companies. Obviously resource efficiency needs eco-innovation - the two go hand in hand - but we need to green the whole economy, not just develop a promising niche. We need cleaner industry in general, not just cleaning-up industries.

I have been Commissioner for the Environment for only a few weeks, but even before I was confirmed in that position – in my hearing in the European Parliament – I made it absolutely clear that we must make resource efficiency a central priority.

It must underpin our economic strategy for the next ten years. President Barroso and the College of Commissioners support this aim too and it has taken more concrete form through EU2020, which has given new life to Lisbon by adding that we need:

- "Sustainable growth: promoting a more resource efficient, greener and more competitive economy"... and
- "Inclusive growth: fostering a high-employment economy delivering social and territorial cohesion".

It is a credit to the Commission that during a slump that has seen bankruptcies and bank bailouts, deficits at an average of 7 % and debts at 80 % of GDP, that we have resisted the reflex to go for a short term crisis exit plan. Of course EU2020 is designed to hasten the exit from the crisis, but it is also a 10 year strategy, providing the building blocks for growth that will be sustainable in the future and which will put less pressure on energy and resources.

We need the longest view possible, because when the economic crisis happened the other challenges didn't simply go away. They may not have been on the front pages for a while, but just because GDP fell by 4 % in Europe last year doesn't mean that the effects of our growth over the last 20 - or 200 - years disappeared, let alone the effects of global population growth, our aging societies and many other challenges. We have done some lasting and significant damage!

So we knew we needed to define a strategy that reflected a coherent approach to all these challenges.

That's why sustainability is written through EU2020, and why resource efficiency - missing from the Lisbon Growth and Jobs agenda - is one of the seven flagship initiatives proposed in its successor strategy.

The stated objective of the resource efficiency flagship initiative is to *“decouple economic growth from the use of resources, support the shift towards a low carbon economy, increase the use of renewable energy sources, modernise our transport sector and promote energy efficiency.”*

It's a compelling idea... That we can have continued economic growth whilst managing sustainably our resources. But it is one that makes complete sense. If you plot on a graph the most competitive countries in Europe, against the most resource efficient countries in Europe, you find there is no contradiction between competitiveness and resource efficiency – on the contrary, there is a positive correlation. Some of this may be due to the importance of the services sectors in more competitive economies, but the correlation is too great for that to explain it all.

So a resource efficient Europe makes environmental, economic, business and geo-political sense. It's the kind of compelling idea that should generate high-level political commitment. And I'm sure it will do when Heads of State come to endorse the strategy, as I hope they will later this week at the European Council.

But that commitment must mean more than resource efficiency becoming just a fashionable and handy buzzword. One that people use without really knowing what it means. What some call “greenwashing”.

That commitment must be backed up with a proper understanding of what resource efficiency is, and of what each actor must do to make it happen.

That's where it gets difficult for me.

As European Commissioner for Environment. I might have the tools in my toolbox to develop environmental legislation and ensure people comply with it, but resource efficiency is a truly cross-cutting affair. When we talk about using resources, we talk about all forms of economic activity; and therefore about the many policy areas that touch on them.

At the European level I will have to work closely with my colleagues – particularly the Commissioners responsible for energy, transport, industry, trade, agriculture, fisheries and research. I want to ensure we have the means to have a structured discussion and develop initiatives that will guide and motivate all the relevant Commission services.

But even this coordinated and cross-cutting Community level approach is too limited....

We also need Member States to buy-into the concept. Subsidiarity is too often cited as an excuse to do nothing; we must rather use it as a powerful tool to act at the most effective level; and in resource efficiency that frequently also means in regions and municipalities.

Resource efficiency will only be achieved through a multi level government strategy. This is implicit in the EU2020 structure: Whilst Integrated Guidelines will cover the scope of EU priorities and targets, country-specific recommendations will be addressed to Member States and monitored. We have to make sure that every Member State understands clearly what they are expected to achieve.

But even a coordinated multi-level partnership of public authorities is too limited...

We also need the private sector with us. If we want to achieve resource efficiency we have to work with the people who are using the resources. And I must say that here the first reactions are good. My meetings with the business community suggest that they fully understand the logic of resource efficiency. They

understand that we are basically talking about resource productivity: “less in – more out”.

And even that is too limited...

We will need to change the behaviour of European consumers. To work on people's awareness, and to influence their habits.

So you can see that I have quite a challenge; and I am going to need quite a lot of help. We really are at the beginning. If this policy were a car, you would probably be looking at a shiny body, but without wheels and an engine.

So why now? If resource efficiency is such a compelling idea, and so logical, why haven't we been doing all this for the last 50 years? Well we are not starting from scratch. We have many good initiatives at European level – the Sustainable Production and Consumption Programme, Sustainable Industrial Policy, the Raw Materials Initiative, the Energy and Climate Package, the Strategic Energy Technologies Plan...

But what we don't have is a way of integrating resource efficiency more generally across all relevant policies.

To illustrate why that has not happened sooner you can look at the example of the energy sector. In the '70s we were spending four times what we spend today on research into alternative energies. Why? Because oil prices went up. Why did it not last? Because prices went down again.

Resources are getting more valuable, and it is that change in relative prices that will lead to real change. Even waste is becoming increasingly valuable. Yesterday I met the Vice Chairman of the Chinese National Development and Reform Commission. He told me that their largest municipal park in China is capable of recycling one-million tons of copper per year. The largest copper mine in China produces less than half of that. They are even calling these parks "city mines", such is their importance in generating raw materials.

We are becoming aware that the arguments for using our resources carefully are not only moral, but economic. For example Pavan Sukhdev and his team have recently produced a report on the Economics of Ecosystems and Biodiversity (TEEB). This I see as doing for biodiversity what Lord Stern's Report did for climate change – demonstrating its economic consequences. Their first results tell us that each year the world is losing land-based ecosystem services that provided us with roughly € 50 billion of services and goods annually. Their "business as usual" scenario shows that the cumulative welfare losses could reach 7 % of global GDP by 2050, with the EU suffering the most.

If we want to reduce stress on natural resources we must change relative prices of different inputs in the economy to reflect the real value of those resources. Unless we change these price signals our alternative will be to revert to the heavy hand of regulation. That would not be efficient and it would not be politically possible. Even policies need to be resource efficient

If we want to change our behaviour as individuals or as businesses we need the right incentives, and that often means prices that reflect the real costs and consequences of our actions,

in the short, medium and long terms. Taking a life-cycle approach to the products and services we buy.

Without such changes in relative prices, innovation on its own will not deliver the changes we need in the balance of economic inputs. Take for example energy efficiency. We can certainly make great gains through innovation. But as each unit of energy put in produces more output this makes energy more useful relative to other inputs, so increasing demand for it... what is known as the "rebound effect". Considered economy-wide, this effect is sufficiently strong that energy efficiency policies will not significantly affect an economy's use of energy in the medium term, even whilst increasing efficiency. The story holds for other resources.

If we are going to send the right economic signals we will certainly have to persuade fiscal policy makers to move beyond concerns for raising revenue; to use their tools to set another direction for our economic development. Of course this is an issue where subsidiarity will be quoted; but it is also one where many Member States already have excellent experience.

We have to look at the subsidy angle too. Because environmentally harmful subsidies hinder investments in clean and green technologies, and lock in inefficient technologies and business structures. Of course subsidies are usually there for good social or economic reasons, but we need to ensure that they are also phased out when those reasons disappear.

We already saw the G20 leaders agree last year to phase out inefficient fossil fuel subsidies. But there are many more opportunities, particularly in the fields of agriculture, fisheries and forests.

Such readjustments in relative prices would drive greater innovation. And on the demand side the most direct influence we have is through green public procurement. Public procurement accounts for 17% of GDP. A recent study¹ showed us that if all public authorities across the EU were to require more energy efficient computers, the effect would save 830,000 tonnes of CO₂. And if they were all to opt for water efficient toilets and taps in public buildings, they would reduce water consumption by 200 million cubic meters.

¹ RELIEF European Research Project.

It's not easy to make these kinds of calculations, but someone has to do it if we are to really measure where we can have greatest impact. Last week I launched a new handbook on Life Cycle Assessment which will help businesses, public authorities and policy makers evaluate more accurately the environmental impacts of their activities.

Policies, governments and businesses are one thing. But for individuals too it is sometimes difficult. The Hummer or Prius example I gave you at the beginning is a classic. In fact the moment that the question was posed, by Michael Polan an American professor of journalism, the blogosphere and Tweetoverse lit up, as scientists and economists over the world set about calculating and debating relative carbon footprints. If you then consider the thousands of other transport and dietary options we choose every day and that carbon emissions are not the only environmental impact, then it is clear that we have to use relative pricing to change behaviour. In the end the hummer was harpooned by rising oil prices!

If nothing changes consumer habits like prices, then nothing induces innovation like changing market conditions. And I am not only talking about technological innovation. Eco-innovation is also about new business models. It's about looking at the whole business of business and applying a new way of thinking. As waste has become more valuable we have seen new technologies applied to treating it, but also innovative markets developing to buy and sell it.

In the UK, an initiative with the (not very catchy) title of the National Industrial Synopsis Programme, has created a market which puts together those producing waste with those who can use it; and are willing to pay the most for it. By turning pastry waste into electricity, converting fatty acids into biodiesel, and so on, they estimate that the whole programme has boosted the UK economy by as much as 3 billion Euros.

In some cases the kind of changes we need cost virtually nothing. Behavioural economists have shown us that there are ways to do it which we would barely register. Charging 10 cents for plastic bags at supermarkets has encouraged people to re-use bags. Putting smart energy meters in houses which go from red to green at a certain threshold encourages people to switch off, unplug and turn down. Simple but effective.

Perhaps it is because I'm an economist, not a lawyer, that I see more hope in changing behaviour through enterprise, markets and prices, than through environmental legislation and sanctions, even if we need both.

There is a saying that "what you don't measure you won't achieve", and one of the most pressing objectives for me will be to develop good indicators for resource efficiency. Policy makers at all levels will need the right indicators and targets if we are to induce the right changes.

I know that the Lisbon Council has been very active in this already. Your President, Paul Hofheinz, was a panellist at the "Beyond GDP" conference the Commission organised in 2007, and more recently you have been working on proposing indicators for EU2020² and the European Human Capital index. We all need to carry on this work. We will never get a perfect indicator, but look me in the eye and tell me that GDP is a perfect indicator. What we need are practical and pragmatic indicators that will motivate policy changes.

So, to answer the question I asked at the beginning: it isn't enough just to care, but it helps, and if we are able to make it possible, easier and even cool to care, then we stand a real chance of decoupling our economic growth from our resource use... Of becoming the most resource efficient region of the world.

I like to think that Jean Jacques Rousseau would have understood the point I'm trying to make. In "The Social Contract" he developed a theory about the best way in which to set up a political community in the face of the problems of commercial society. He said that

² "Innovation Indicators – Choosing the Right Targets for EU2020" (4/2009).

“The Sovereign, having no force other than the legislative power, acts only by means of the laws; and the laws being solely the authentic acts of the general will, the Sovereign cannot act save when the people is assembled.”

Today’s policy makers must use their legislative power to engage and guide the wider society, as it is only by changing our collective behaviour that we will achieve sustainable growth.