

## **Summary of the SER advisory report *Eco-efficiency as Opportunity* 21 October 2005**

In the second half of 2004, the Dutch Presidency of the European Union put the theme of ‘eco-efficiency as economic opportunity’ on the Union’s political agenda. This theme met with great support, including from the Social and Economic Council of the Netherlands (SER), as shown by its advisory report *The Environment as Opportunity*, published on 21 October 2005. In this report, the SER endorses the Cabinet in its aims to promote innovations that will simultaneously offer economic opportunities and benefit the environment, under the motto ‘Clean, Clever and Competitive’ (Schoon, slim en sterk). The SER believes that European and national measures must be taken to give these eco-efficient innovations a powerful stimulus.

### *Motives for the business community*

From the perspective of corporate strategy, innovation is mainly driven by expected results, quality improvement and changing market needs. Eco-efficient innovations can have a positive effect on each of these factors. However, the fact remains that various trade-offs often stand in the way of individual companies implementing environmentally friendly innovations. These include sunk costs and learning effects that make it difficult for companies to switch from one technology to the other. In addition, the introduction of new technologies is often accompanied by a number of uncertainties, regarding their reliability, for instance. Investments in innovative new technologies must also be weighed up against other possible uses of the resources available (i.e., opportunity costs).

In environment-related sectors, the expectation that the global market for environmental goods and services will grow strongly in coming years – with new products, new market opportunities and new markets – is an important driver. Significant export opportunities will arise for European companies, particularly to fast-growing economies such as China or India, which are increasingly facing environmental problems.

At the same time, social and political pressure can clearly lead companies to eco-efficient behaviour that goes beyond just complying with the minimum legal requirements. This touches on corporate social responsibility, which concerns issues such as positive image-building and improved relationships with stakeholders. These stakeholders include employees (i.e., making them proud of their company), other companies in the same chain (i.e., suppliers and buyers), customers, the physical community in which the company is located, and the government.

### *Providing green tax incentives and rescinding subsidies that harm the environment*

The SER is in favour of a well-considered system of ‘green’ tax incentives at EU level, and of driving down environmentally damaging subsidies and other tax arrangements that negatively impact the environment (including the airline industry’s participation in CO<sub>2</sub> emissions trading or, alternatively, the introduction of a European kerosene tax).

The SER believes that at national level in particular there is scope for the existing tax system to differentiate further on the basis of how much companies and citizens pollute. Here, the principle that ‘the polluter/user should pay’ can be applied through tax discounts or exemptions for many environmentally friendly activities or products.

This could take place without incurring any additional costs, by shifting taxes in an environmentally friendly direction. This would promote efficiency-increasing investment designed to limit the consumption of raw materials and energy.

However, recent insights from evolutionary economics show that making companies directly accountable for the environmental costs they incur is not enough to ensure eco-efficient breakthroughs. Account must also be taken of the increasing economies of scale of existing technologies (i.e., the lock-in effects) and the high costs of new technologies that are still at the very start of the learning curve. The government can stimulate new technologies by creating a favourable environment, for instance by creating or stimulating niche markets. In this type of protected market segment (e.g., solar cells or heat pumps in the construction sector), a new technology can benefit from economies of scale and learning effects.

#### *Availability of venture capital*

Due to insufficient financial resources, most innovation projects, including eco-efficient innovation projects in both large and small companies, never reach the valorisation stage (i.e., the stage at which their benefits are widely experienced). The SER therefore calls for the Cabinet to develop a policy that addresses this issue, as well as to further develop a set of measures to promote eco-efficient innovation. In order to avoid any fragmentation of policy instruments, these measures should be aligned with the existing or anticipated instruments of the Ministry of Economic Affairs to increase access to venture capital.

#### *Green procurement*

By focusing much more strongly on 'green procurement', the government can operate as an innovative contracting party and so impose sustainability requirements on its suppliers (i.e., launching customers). The SER believes that there is much opportunity in this area. As the government itself acts in a more sustainable way, as a role model, it will have more authority in addressing others about their non-sustainable activities.

In order to achieve its objectives, the government must also develop a powerful supporting policy that motivates all levels of the administration (national, provincial and municipal) to make their own procurement policy more sustainable.