The Moscow Times
30 YEARS
INDEPENDENT NEWS FROM RUSSIA

Counting Europe's Options for a Green Recovery

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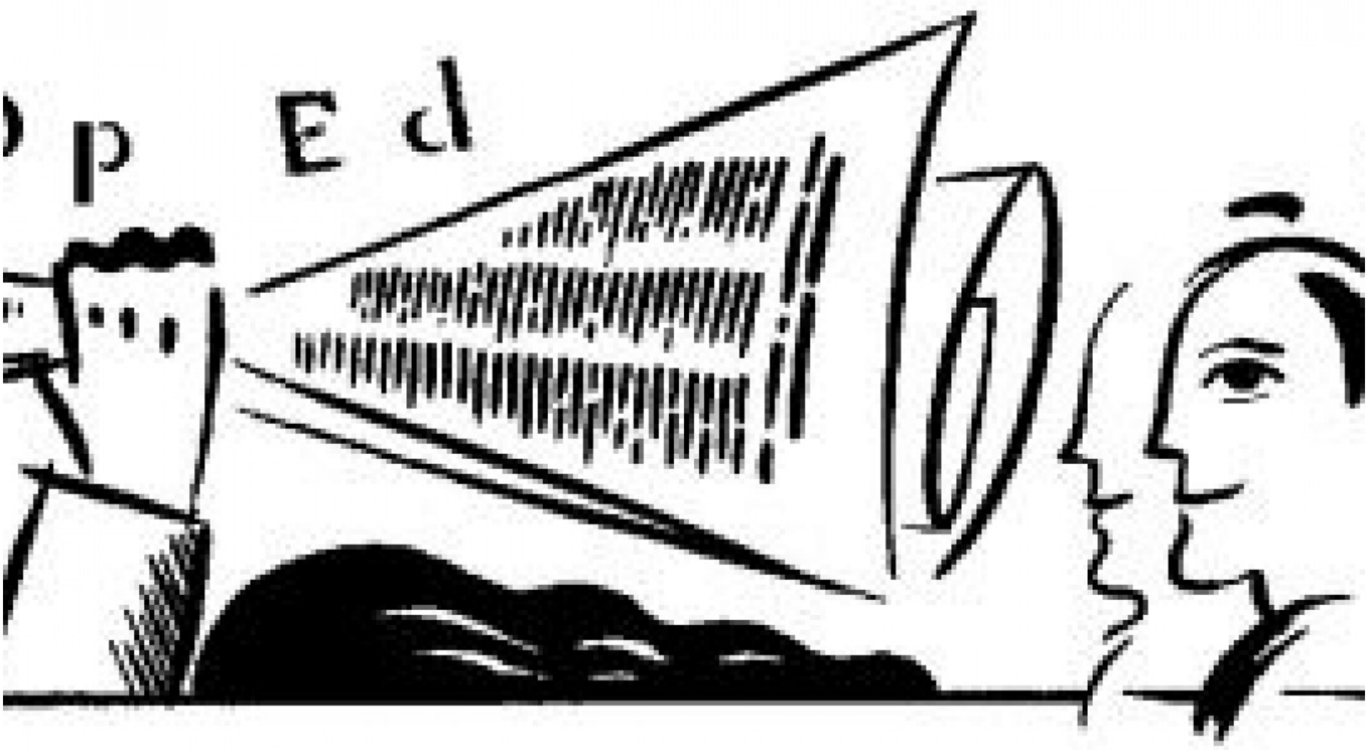
February 18, 2013



The need for clean energy has returned to the top of the global economic agenda. China's new leadership now seems to recognize that the thick, hazardous smog that has come to define Beijing and other cities is more than a pollution problem. It is a result of an excessive emphasis on short-term economic planning.

Likewise, in his second inaugural address, U.S. President Barack Obama discussed climate change more than any other issue, saying, "We cannot cede to other nations the technology that will power new jobs and new industries." At the World Economic Forum in Davos, International Monetary Fund managing director Christine Lagarde and World Bank president Jim Yong Kim surprised business and government leaders with their warnings that genuine economic recovery would be impossible without serious action on climate change. And, at the most recent EU summit, leaders agreed to commit at least 20 percent of their entire common budget to climate-related spending.

These developments suggest that global leaders are finally beginning to understand that, beyond the global economic crisis, the world is experiencing a social and employment crisis, as well as a climate and resource crisis. And none can be resolved without addressing the others.

Moreover, Europe's main commercial competitors have begun to recognize that pursuing short-term development policies, while ignoring long-term threats to the global economy, is both irresponsible and a strategic mistake for those who aspire to global leadership in the twenty-first century. Although Europeans have known this for decades, in the wake of the recent economic crisis, immediate goals took priority over — and often at the expense of — long-term objectives.

With the European Union's economy growing more slowly than those of its major competitors, its leaders must take a more far-sighted approach to restoring — and preserving — its members' growth potential. They must begin by identifying not only what is undermining Europe's competitiveness today, but also those factors that are putting its long-term prospects at risk.

Analysts often point to Europe's costly social-welfare systems, high labor costs, and increasing tax rates as a drag on competitiveness. But other, less widely discussed factors must be considered — particularly the costs of delayed action on climate change. For example, Unilever CEO Paul Polman reported that extreme weather cost his company $250 million to $300 million in 2012. Once considered an issue for the future, action on climate change has become increasingly urgent, as the outlays required to mitigate its negative effects have grown.

Furthermore, with record-high unemployment rates, Europe needs jobs in dynamic, competitive industries that cannot easily be outsourced. The European Commission has identified the green economy as one of the areas with the highest job-creation potential.

At the same time, Europe's growing dependence on imported fossil fuels is a further hindrance to competitiveness. In 2011, the EU's combined trade deficit was 150 billion euros ($200 billion). But the combined oil-import bill was more than double that — 315 billion euros — and the official figure for 2012 is expected to exceed 335 billion euros.

If Europe does not address these challenges, it risks being left behind. But Europe cannot build an industrial strategy on cheap energy. Unlike the United States and China, which the International Energy Agency estimates possess the world's largest shale-gas deposits, Europe cannot rely on its limited energy reserves to lower prices — especially given that its greater population density makes extraction more difficult, and thus prohibitively expensive.

As a result, Europe will remain a net energy importer. And, given rising global demand for oil, particularly in developing countries, energy-import prices will remain high.

Meanwhile, China — the world's leading investor in renewable-energy projects — is undergoing a transformation from the world's low-cost factory to a global leader in green innovation and a major exporter of clean technologies. In the contest for this global market, Europe cannot compete on price alone.

But Europe does have options. EU leaders can build an economy that is less dependent on imported energy through increased efficiency and greater reliance on domestically produced clean energy. At the same time, they should tackle other major threats to Europe's long-term competitiveness, including low productivity, an incomplete internal market, and insufficient innovation.

But Europe must not heed short-sighted calls to relax its environmental standards, which some claim harm its competitiveness vis-a-vis countries with looser rules. Given their global reputation as guarantors of quality, Europe's high environmental standards are crucial to its future competitiveness, and should therefore be actively promoted, particularly in trade agreements.

While trade deals have often come at the expense of stronger domestic climate action, the EU's new trade agreement with Singapore aims to boost trade and investment in clean-energy technologies and promote green public tendering. This should serve as an environmental benchmark for future agreements — including with the U.S., despite some American constituencies' expectations that EU standards could be relaxed in a bilateral trade deal.

By maintaining high environmental standards, and promoting such standards among its trade partners, Europe can bolster the global market for clean-energy technologies. As a major player in the green-technology market — set to triple in value by 2020 — Europe could regain competitiveness and secure its role in the future global economy.

To be successful, Europe must play to its strengths. The EU's most competitive economies are the most innovative and energy-efficient, with the most highly educated workforces. Indeed, for Europe, cheap is not the answer; quality and innovation are.

Europe's major competitors are turning climate change into an opportunity to encourage growth and create high-quality jobs in rapidly innovating economic sectors. If EU leaders hesitate to take action on climate change, they will be sabotaging their own economy's prospects for sustainable recovery.

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