

**A Lisbon Process II merging the Lisbon and Gothenburg Agendas
European Competitiveness in a New World
"Shared Prosperity and Global Well-being in a Circular Economy"**

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Executive summary

1. The Lisbon process, which has been a relative failure up to now, needs radical transformation. Problems are linked to the very changes in requirements for European competitiveness. We must avoid an error of analysis regarding new competitiveness factors, an error in the choice of communication policy and an error in the type of management of the process. The time has come to call a halt:
 - to the increasing development of competing strategies neutralizing each other out with no mobilizing power any longer;
 - to an exclusively top-down, non inclusive and largely opaque process in terms of competitiveness;
 - to an outmoded, narrow-minded vision of European competitiveness jeopardizing the trust of European peoples in their political leaders and businesses.
2. A study on European industry's place in the new international division of labour and on European competitiveness (1) shows the increased importance of an approach based on the "global supply chain" (with the share of self-centred trade going down within the sole Internal Market). In a "supply chain" approach, as is show by guidelines from multinationals and the development of new N/S joint ventures, those who define stringent social and environmental standards and/or comply with them weigh heavily and gain market shares (2) . We are able to sell "top of the range" products (half of our exports) at a high price and therefore to sell expensive labour (1). Preparing a new global society model, the well-being society, will be a source of innovation, new products and new services and the main lever for new competitiveness in a project of shared prosperity.
3. "If macroeconomists and analysts of national competitiveness have largely ignored businesses' social and environmental performance as potential drivers of a nation's economic competitive advantage, this is changing dramatically. National competitiveness depends increasingly on how a country's business community effectively mobilizes intangible assets and manages its value chain in pursuit of innovation in products, services and business processes" (3). From this perspective, sustainable products and sustainable purchasing should be part of responsible competitiveness indicators. Indeed, sustainable trade and responsible consumption are key areas of action towards a truly industrial, managerial and consumption revolution.
4. More successful business models "will require shifts in markets, ingenuity, innovation and new organizational approaches. Leading companies are now exploring a range of strategies to address emerging opportunities: new business models to open up markets for the 3 billion people that live on less than \$2 a day; thinking in terms of resource productivity and "closing the loop" rather than waste;

paying for the use of products and moving towards service-based platforms" (4) are new elements of European competitiveness.

5. Consequently, in order to mobilize Europeans, Lisbon II ought to:

- be in keeping with the values and objectives of the draft Constitution and be set within the sustainable development framework;
- take note of the "end of a model focused on European integration" (1) and tackle the challenge and opportunities created by development outside Europe, particularly in China – and its project of an overall well-off (shao kong) society by the year 2020 (5);
- ensure competitiveness through (i) shared prosperity, (ii) a circular economy and (iii) new business models for doing business with the poor (6);
- be truly centred on a knowledge-based, networking society in which the mobilization of individuals – who are workers/citizens/consumers/investors all at the same time – is a key element linked to prospects for personal development and for exercising their responsibilities in an inclusive society;
- be willing to contribute to restoring consumer and investor trust in businesses (7);
- develop a knowledge-based, innovative society that results in particular from new forms of partnerships and synergies;
- support entrepreneurship, including social entrepreneurship, as a contribution to sustainable human development.

6. Within the framework of Lisbon II:

- EU policies on industry, research, public procurement and corporate social responsibility will be adapted;
- the ten-year action plan on changes in consumption and production patterns will be part and parcel of Lisbon II;
- a policy linking territorial local development, sustainable development, trade and the global value chain will be introduced;
- a new support system will be launched – at a European level – regarding investments made by the banking sector and private investors for sustainable development and environment, innovation, employment and a circular economy.

7. Processes relating to European competitiveness, a knowledge-based society and sustainable development, called the Lisbon and Gothenburg objectives and the Johannesburg commitments should be merged into one single process: Lisbon II for the development of a pan-European model of a “well-being society” (defined as addressing sustainable development + personal development in a knowledge-based society). After the “Well-fare” and the “Neo-liberal” society models, the time has come for united Europe, within a global partnership framework, to shape the “Shared Well-being and Prosperity” model. By 2010, this new model will make Europe the most advanced and competitive knowledge-based economy.

8. In order for short-term and long-term competitiveness to be better appreciated and new synergies introduced, the Competitiveness Council (internal market, industry and research) should be abolished and replaced by a High Committee for Competitiveness composed of representatives from European institutions (European Commission, EU Councils of ministers for Economy, Internal Market,

Industry, Energy, Research, Employment, Health and Environment, Economic and Social Committee, Committee of the Regions), delegates representing the Champions and Leaders of new competitiveness, export sectors for a well-being society, and public and private banks taking part in Socially Responsible Investment programmes (SRI).

9. To succeed in a knowledge-based, networking society, there is a need to change our mental map. The process should be truly centred on a knowledge-based, networking society in which the mobilization of individuals – who are workers/citizens/consumers/investors all at the same time – is a key element linked to prospects for personal development and for exercising their responsibilities in an inclusive society. In order to reach this objective, the top-down Lisbon and Gothenburg processes should be completed by a bottom-up process thanks to a "new formula" Convention III.
 - The formula of a convention is a structure that has been implemented for the first time to draw up a "charter" on fundamental rights. The second time concerned the revision of the treaties. A "new formula" convention, Convention III, held over a two-year period, could now focus on a "European contract or European compact". These contracts will cover a set of themes linking "values", "competitiveness" and "action at all levels". The objective of this Convention is to link (i) a "framework discussion" at a European level involving European institutions, social partners and civil society on the one hand, and observers representing third countries on the other hand (ii) with negotiation processes at all levels concerning contracts or agendas signed by the stakeholders. Tools will be developed to foster partnerships at all levels.
 - A Lisbon II observatory (with implementation of the contracts proposed within the "new formula" Convention III) should report on an annual basis.
 - A new approach is required for reporting and monitoring, particularly for businesses and public players in their capacity as buyers and investors. The time has come to launch a Community-wide harmonization process on the basis of existing national legislation.

Introduction

We are faced with three problems:

- An error of analysis regarding new competitiveness factors. Concerns about European competitiveness have led a number of people to question the need for a strong environmental policy or a social policy. According to them, the implementation of environmental legislation has a cost in terms of competitiveness and social dumping is the rule.
- An error in the choice of communication policy. The Lisbon process should have focused on the potentialities of a knowledge-based society and should have shown that it concerned everyone's personal development. On the contrary, the process has been experienced as a weapon against the peoples of Europe, fostering a social dumping policy in a context in which competitiveness is still defined in outmoded terms.
- An error in the type of management of the process. The "competitiveness" agenda and the "sustainable development" agenda are managed as distinct areas by myriads of people in charge at the Commission, the various Councils of ministers, the EU Member States, the business world, trade unions and ngo's, with these distinct "galaxies" of people often conflicting with one another (see further on about the Competitiveness Council).

1. A new approach to European competitiveness and its connection with sustainable development

1.1. European industry's place in the international division of labour (1)

The European performance issue is essentially a problem of sectoral adjustment: the EU offer does not match the development of global demand – we are missing the technological bandwagon of the 21st century. The Lisbon strategy has got stuck and the fact that EU innovation and productivity keep lagging behind the United States is regularly denounced (1).

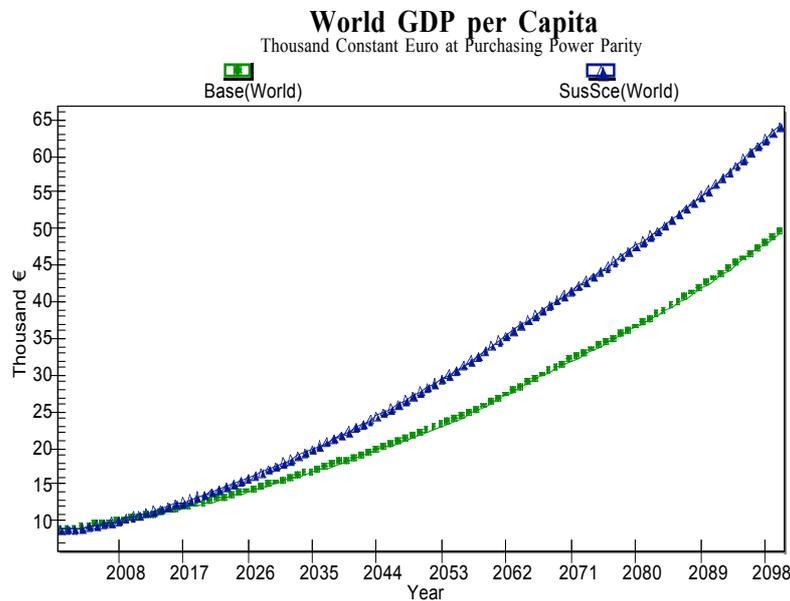
The study on European competitiveness carried out by the CEPPII (1) shows:

- the growing importance of a "global supply chain" approach, with the share of self-centred trade going down (within the sole Internal Market);
- our ability to sell "top of the range" products (half of our exports) at a high price and therefore to sell expensive labour;
- the fact that European competitiveness does better than that of the US or Japan, though our exports are inadequately oriented in areas in which there is rapid growth in emerging countries: we have weaknesses in terms of "geographical areas" and in the field of "high-tech" products.

Moreover, the assessment of European competitiveness should include new elements that will be added to the findings of studies on the development of the international division of labour, more specifically:

- the major changes noted as regards the way in which the stock exchange evaluates the social, environmental and ethical performance of businesses;
- the profound transformations in purchasers' behaviour, particularly in Europe (15% to 25% of them would be Alter-Consumers).

All these elements lead us to believe that the race for dumping is not the right way forward and therefore propose a different approach. Growth in the European Union will be stronger if it is set within a strategy fostering sustainable development and good health – two growth factors. It is thus estimated that a 10% increase in life expectancy represents a 0.35% increase in GDP (8). Growth linked to sustainable development has also been quantified (9).



1.2. The circular economy and the overall well-off (shao kong) society by the year 2020

Definition of Circular Economy

“There are a number of ways to define the term Circular Economy (CE). The accepted working definition may be: interlinked manufacturing and service businesses seeking the enhancement of economy and environmental performance through collaboration in managing environmental and resource issues. The theme of the CE concept is the exchange of materials where one facility’s waste, including energy, water, materials – as well as information – is another facility’s input. By working together, the community of businesses seeks a collective benefit that is larger than the sum of the individual benefits that each enterprise, industry and community would realize if it intended to optimize its performance on an individual basis (i.e. industrial symbiosis) “(5).

The circular economy in China

“The 16th National Congress of the Communist Party of China, held in November 2002, pledged an ambitious blueprint for China’s development in the next twenty years, i.e. to realize an overall well-off (shao kong) society by the year 2020. This society system is defined as quadrupling the country’s GDP while enhancing social equality and environmental protection. The pursuit of a new industrialization model has become China’s only pathway in reconciling and linking these dual endeavours to sustain high-speed economic growth and to reverse environmental degradation. The characteristics of such industrialization will be centred on featuring high-technology products, good economic returns, low natural resource consumption and environmental pollution, and efficient deployment of manpower” (5).

“Development based on the circular economy will be essential for China to reach an overall well-off society by sustaining fast-paced economic growth while mitigating negative ecological impact and creating more job opportunities.

For the purpose of law, “Recycling-based Society” means a society where the consumption of natural resources will be restrained or limited and the environmental load reduced to the maximum extent. Products are not to become waste and appropriate recycling processes are promoted. To achieve the establishment of the recycling-based system is a long-range target of the environmental policy of Japan (and China), and its aim is not to damage the closed system of the earth. Consequently, it is necessary to integrate the Circular Economy closed loop into the socio-economic system.

Both China and Japan consider that “the basic law for the establishment of the Recycling-based Society” is an important policy which will fulfil its objectives by reducing the environmental load generated from human activities to the minimum, and will comprehensively and systematically promote a policy for integrating the CE closed loop into socio-economic systems. Great attention will likely be paid to measures to curb and decrease the global warming trend” (5).

1.3. Macroeconomists analysts of national competitiveness should change

If macroeconomists and analysts of national competitiveness have largely ignored businesses’ social and environmental performance as potential drivers of a nation’s economic competitive advantage, this is changing dramatically. National competitiveness increasingly depends on how a country’s business community effectively mobilizes intangible assets and manages its value chain in pursuit of innovation in products, services and business processes(3). From this perspective, sustainable products and sustainable purchasing should be part of responsible competitiveness indicators. Indeed, sustainable trade and responsible consumption are key areas of action towards a truly industrial, managerial and consumption revolution .

More sustainable business models will require shifts in markets, ingenuity, innovation and new organisational approaches. Leading companies are now exploring a range of strategies to address emerging opportunities: new business models to open up markets for the 3 billion people that live on less than \$2 a day; thinking in terms of resource productivity and "closing the loop" rather than waste; paying for the use of products and moving towards service-based platforms.(4)

The process should:

- be truly centred on a knowledge-based, networking society in which the mobilization of individuals – who are workers/citizens/consumers/investors all at the same time – is a key element linked to prospects for personal development and for exercising their responsibilities in an inclusive society;
- be willing to contribute to restoring consumers and investors’ trust in businesses;
- develop a knowledge-based, innovative society that results in particular from new forms of partnerships and synergies;
- support entrepreneurship, including social entrepreneurship, as a contribution to sustainable human development.

2. A "Lisbon II" strategy

This process ought to:

- be in keeping with the values and objectives of the draft Constitution, which states in Art I-3, §1 that “the Union’s aim is to promote peace, its values and the *well-being of its peoples*” and in Art I-3, §4 that “in its relations with the wider world, the Union (...) shall contribute to peace, security, the *sustainable development* of the earth, solidarity and mutual respect among peoples, *free and fair trade, eradication of poverty and protection of human rights*”, thus leading to a new development model;
- tackle the challenge and opportunities created by development outside Europe, particularly in China and Japan (see above);
- be willing to contribute to restoring consumer and investor trust in businesses;

- develop a knowledge-based, innovative society that results in particular from new forms of partnerships and synergies;
- support entrepreneurship, including social entrepreneurship, as a contribution to sustainable human development.

2.1. The Lisbon and Gothenburg processes should be completed and merged into a Lisbon II process

For us, this new strategy will be able to boost our competitiveness while recreating trust in those businesses eager to contribute to a new societal model for the well-being of peoples – one of the objectives of the draft Constitution. The strategy will turn the European Union into a co-leader of the social, environmental and health policy, keeping in Europe a high-added-value manufacturing industry based on the circular economy concept (zero emissions, zero waste) for shared prosperity and well-being, in accordance with the draft European Constitution for free and fair trade.

The Lisbon II strategy and “Well-Being of Society Initiative” aim to propel Europe’s integration once again into motion and to link three key issues:

- the new European societal model deriving from the values and objectives of the European Union as drafted in the European Constitution,
- European competitiveness,
- citizens/consumers/investors’ confidence.

The precedence that some would like the Competitiveness Council to have (10), the lack of real debate at the European Spring Council meeting, the lack of real vision regarding the components of European competitiveness in the 21st century, the opaque nature of the Lisbon process, the fact that it does not mobilize Europeans and its failure to reach its objectives all demonstrate that within the framework of the review of the Lisbon and Gothenburg processes respectively, the time has come to call a halt:

- to the increasing development of competing strategies which no one believes in any more;
- to an exclusively top-down, opaque process;
- to an outmoded, narrow-minded vision of European competitiveness.

2.2. New bases for Lisbon II

- Competitiveness through shared prosperity (circular economy).
- Shared responsibility expressed by "contracts" involving businesses, trade unions, civil society and public authorities at all levels.
- A bottom-up, participatory, inclusive dimension through mobilizing all the players in favour of a well-being society launched by a new type of Convention III (see further on) as a new global society model, source of innovation, new products and new services.

2.2.1. A "global value chain" approach

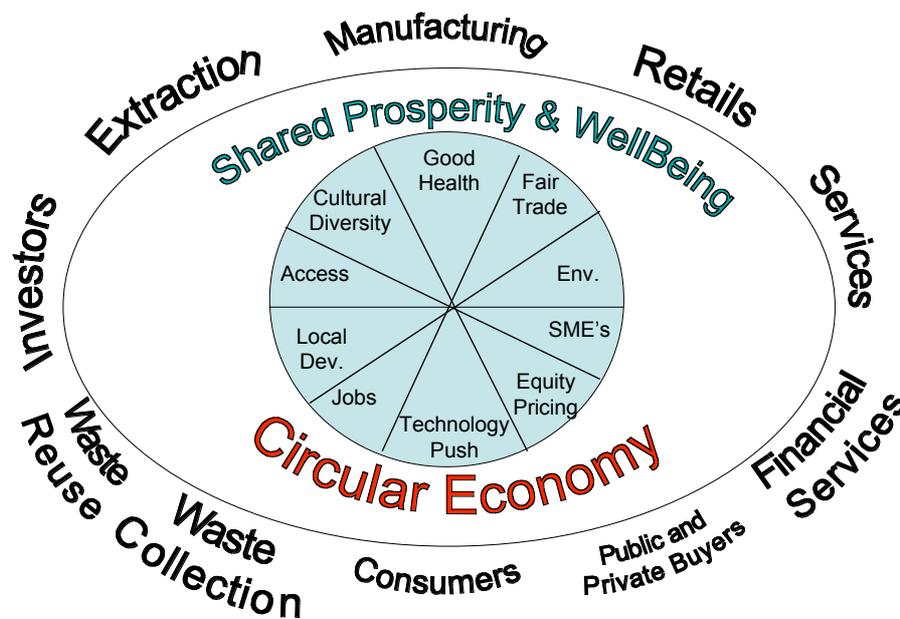
There is a double source of concern today among industrial circles: competitiveness on the one hand, changes in consumers’ behaviour patterns on the other hand. Moreover, it is well-known that OECD countries are no longer those which drive growth and that South countries now represent over half the growth of world exports and already over 40% of the growth of world imports (1).

A circular economy

We propose that the competitiveness strategy be discussed within the framework of the vision of the whole life cycle and a circular economy (a concept which the Chinese and Japanese are working on) and not just the supplier-buyer relationship. Consequently, the resource management policies for the ecosystem (from extraction to energies and waste), the consumption and good health policies and the after-sales service policy are all elements that contribute to boosting growth. This strategy involves the players which are a source of innovation and help public and private purchasing behaviour patterns evolve in Europe and in the South.

A North/South partnership for shared prosperity

According to the experts, the future of European competitiveness depends on the South desirably catching up with the North in terms of living standards, an issue directly linked to the institutional fabric to be found in the South. As our meetings in the four corners of the earth have shown within the framework of the Sustainable Trade and Innovation Initiative (STIC) (11) programme, it is vital to help our South partners to set the bar of their own expectations higher about finding products that are good for health, employment and the environment on their own domestic markets. It is through a rapid convergence of the South that the good stand currently made by Europeans in top-of-the-range products can be maintained.



This is why the Sustainable Trade and Innovation Initiative (STIC) has an eminent role to play. The objective is no longer "only" to help the South take advantage of public and private social and environmental standards – in terms of access and market shares on European markets – but also to create a convergence in South countries, establishing a domestic market in the South for so-called sustainable products and adapting our own sales on the markets of emerging countries along the same lines, thus contributing to a strongly cooperative strategy at an international level with a view to "shared prosperity".

2.2.2. There should be a change at the level of EU policies on industry, research, public procurement and structural funds so that they can be adapted

The objective is to shift to a real European economic and industrial policy for a circular economy, which relies better than is currently the case on the means available to public authorities, particularly public procurement policies, structural funds, etc.

2.2.3. There should be a policy on sustainable local development and the global value chain

The territorial dimension of a competitiveness approach based on the value chain is a new dimension rooted in the new emphasis proposed by the Commission for the 2007-2013 budget as regards accompanying measures for international trade at a regional level ("Anti-shock" effect added to cohesion policies).

The competitiveness of European SMEs will increasingly depend on their capacity to offer top-of-the-range products or products with a strong identity, particularly through the implementation of high social and environmental standards. These standards will gradually become criteria of excellency and constitute the basis for selection by multinationals which are more and more under the control of their stakeholders, whose trust they must recover. They will also constitute the basis for selection by consumers in search of diversity and quality.

2.2.4. There should be a new way of involving the financial sector

The finance industry can do much to support these efforts for a new type of partnership with a view to "shared prosperity". It can do much in Europe and outside Europe. The CSR working group of the European Association of Cooperative Banks and EPE will hold a joint meeting on these issues . The informal Environment Council meeting of July 2004 took a stand in favour of a European system for green investments.

3. A new form of "open co-ordination method" required

3.1. The Lisbon II process should be clarified, enlarged and be given new legitimacy

Today some people are trying to turn the Competitiveness Council – limited to the internal market, trade, industry and research ministers – into the arbitrator of all the other EU policies and those supporting this approach are suspected of wanting to unravel the environmental and social policy. This is not the way to create trust or to encourage the stakeholders to get mobilized around the competitiveness objectives !

The Lisbon process ought to:

- be refounded on a "new pact" based on the values and objectives of the draft Constitution;
- be set within a "values, standards and competitiveness" strategy for a new societal model, the well-being society – a well-being and prosperity shared with the other regions of the world;
- have a circular economy and the eradication of poverty as an objective, thanks to a strategy based on "doing business with the poor" (6);
- integrate a series of elements in the strategy – innovation, employment, new products, new services – that will result from Convention III;
- lead to "contracts or agendas" signed by the stakeholders at all levels;
- make a flow chart available to the public and a decision-making system based on dialogue between three entities: public authorities, social partners, and public and private buyers and investors.

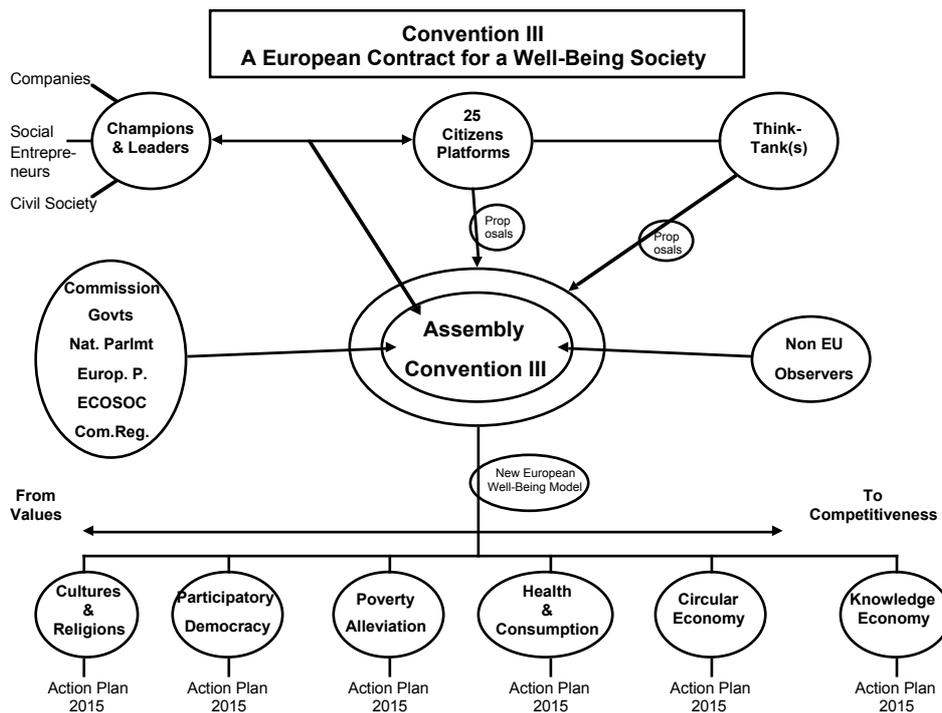
In order for short-term and long-term competitiveness to be better appreciated and new synergies introduced, the Competitiveness Council should be abolished and replaced by a High Committee for Competitiveness composed of representatives from European institutions (European Commission, EU Councils of ministers for Economy, Internal Market, Trade, Industry, Energy, Research, Employment, Health and Environment, Economic and Social Committee, Committee of the Regions), delegates representing the Champions and Leaders of new competitiveness, export sectors for a well-being society, and public and private banks taking part in Socially Responsible Investment programmes (SRI).

3.2. A "new formula" Convention III

The formula of a convention is a structure that has been implemented for the first time to draw up a "charter" on fundamental rights. The second time concerned the revision of the treaties. A "new formula" convention, Convention III, held over a two-year period, could now focus on a "European contract or European compact". These contracts will cover a set of themes linking "values", "competitiveness" and "action at all levels".

Over a two-year period, the new Convention would link:

- a "framework discussion" at a European level involving European institutions, social partners and civil society on the one hand, and observers representing third countries on the other hand;
- negotiation processes concerning "contracts or agendas" signed by the stakeholders at all levels. Tools should be developed to foster partnerships at all levels.



Under the Dutch Presidency, the EU Council should set the terms of reference of this process in a Declaration. Under the Luxemburg Presidency, the EU Spring Council should launch a mobilization campaign in favour of this process on the basis of a series of proposals for the setting-up of Convention III in terms of negotiation processes concerning "contracts or agendas" signed by the stakeholders at all levels.

3.3. Monitoring process

A Lisbon II observatory (with implementation of the contracts proposed under Convention III) should report on an annual basis.

3.4. A new approach required for reporting and monitoring

To support efforts made along this new route to competitiveness, two issues in particular ought to be put on the agenda:

- EU-wide harmonization (given Article 116 of the French NRE Act and existing options in the form of Community regulation/Directive or mandate to European standardization bodies) and the establishment of a compulsory reporting system on sustainable development for European businesses listed on the stockmarket, with a section on purchases and investments.
- A compulsory report on public procurement and sustainable development for any public authority in the European Union that receives Community funds, with a section on purchases and investments.

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- (1) *based in particular on a CEPPI study concerning the integration of European industry in the international division of labour, presented in June by DG Trade and the Commission proposals in the budgetary field for the period 2007-2013.*
 - (2) *"Business Compliance Initiative".* Foreign Trade Association
 - (3) *Responsible Competitiveness index 2003.* AccountAbility, The Copenhagen Centre.
 - (4) *Martin Charter.* The Centre for Sustainable Design
 - (5) (see www.chinacp.com/eng/cppolicystrategy/circular_economy.html)
 - (6) *Doing Business with the poor, a field guide.* WBCSD.
 - (7) *CSR: Rebuilding Trust in Business.* Niall Fitzgerald, Chairman of Unilever. London Business School.
 - (8) *Boosting the economy through better health.* Commissioner Byrne. Brussels, 15 July 2004.
 - (9) *Information Society and the Well being Agenda,* by Peter Johnson, DG INFSOC
 - (10) According to UNICE, "the Competitiveness Council must become a standard-bearer for the vision set out in the Lisbon strategy, to make Europe the most competitive economy by 2010 (...) According to the European business leaders, the Competitiveness Council "must be able to give evaluations that contradict the opinion of other Council formations, if this is needed, for example to stop legislative measures that could hamper European competitiveness". (The Competitiveness Council was created in 2002 out of a merger between the former Internal Market, Industry and Research Councils. It received a special mandate from this year's Spring Summit to watch over all proposals considered likely to have an effect on Europe's competitiveness. In the Commission "Barroso", the Commissioner for trade is member of the Group of Commissioners for the Competitiveness Council).
 - (11) The Sustainable Trade and Innovation Centre is supported by DG Trade. See www.epe.be