



**European  
Partners for the  
Environment**

## **Promoting industrial growth in Europe**

**An event jointly organised by MEP R. Bütikofer and BUSINESSEUROPE**

**Date: 17 June 2013**

**Venue:** European Parliament.

*The European Commission published a follow-up communication on industrial policy in October 2012. It points out the central role played by industry in the EU's economy and the importance of a strong and competitive European industry to ensure sustainable growth and jobs. The European Parliament is preparing a report on industrial policy under the leadership of MEP Bütikofer (Rapporteur).*

*This event aims at triggering discussions on the main drivers to support industrial growth. It will debate the drivers and obstacles of an innovation-friendly business environment (e.g. IPRs, smart regulation, skills) as well as experiences gained from the existing energy and climate policy framework and where EU's strategy needs to be adapted.*

### **Remarks by R. Van Ermen<sup>1</sup> : Reindustrialising Europe in a Circular Economy. Four drivers to accelerate business models change.**

EPE supports the vision of a re-industrialization of Europe but in a *EU Circular Economy based on a recycling society with the aim of reducing waste generation and using waste as a resource*<sup>2</sup>.

Europe has the investment power, the technological leadership, the skills and the citizens support needed to succeed in a shift towards a Resource Efficient Union. By doing so Europe will invest in addressing three crisis together : the social, the growth and the ecological crisis. Europe will also increase so its productivity in resource use, the best way to increase its 'global' competitiveness and anticipate

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<sup>1</sup> Raymond Van Ermen is Executive Director of European Partners for the Environment (EPE) since 1998. He is Board Member of the European Water Partnership. And, in Washington DC, Jury Member of the World Environment Center Gold Medal for Multinational's Sustainability Business Models,

<sup>2</sup> A resource-efficient Europe. Flagship initiative. COM (2011)21.

raising prices of commodities, decreasing environmental footprint and increasing social well-being..

A strong industrial base is needed to transform our infrastructure. The "industrial redevelopment of Europe in a circular economy" is linked to the 'so-called' growth agenda.

A 'circular economy' would look as :

- clean and competitive
- protecting scarce raw materials and securing sustainable supply of energy and material
- closed material loop, i.a. re-manufacturing waste
- based on distributed business
- preserving land and soil protection (including brownfield management).

A zero emission model requires :

- extended producer responsibility
- design for recycling
- from product to services including take products back
- managing the nexus energy-water-raw materials-biodiversity-climate

EPE wishes to underline 4 drivers to accelerate business models change :

#### 1. Sustainable Material Management

This issue is on the OECD, USA and Japan agenda.

*"A fully-realized materials management strategy will not only address recovery and beneficial use of wastes in industrial and biological cycles, but will also emphasize powerful upstream efforts to reduce and change materials use, such as: 1) full recognition of the life-cycle impacts of the use of certain materials; 2) using less materials in the first place; 3) substituting safer and renewable materials in place of toxic or non-renewable materials; and 4) substituting services for products (to provide maximum utility with minimal material inputs and environmental impacts)<sup>3</sup>.*

#### 2. Multi-Stakeholders Value chain partnerships.

The title of Jeremy Rifkin's last book the Third Industrial Revolution, mentioned in the Commission communication is How Lateral Power Is Transforming Energy, the Economy, and the World. Who are the lateral powers concerned here. It is not an issue of partnership between the EU and the Industry alone DG Enterprise or Business Europe tend to believe. It should be a 'multi-stakeholder value chain partnership'.

We need new ways to work together

- New technologies addressing water-energy (hard path)

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<sup>3</sup> "Resource Conservation Challenge" (EPA 2002), p31

- Cross sectoral policy and smart integrated approach (soft path) between public and private sectors. We need 'transformational collaboration' along the value chain including with consumers (see the new role of 'consumers to consumers').

The industrial redevelopment of the economy within the framework of a circular economy means highlighting five major dimensions in a partnership between Companies, Agencies & SME's and other partners of the value chain:

- the need to shift to a zero-waste, zero-emission economy, close carbon cycle;
- the need to be positioned as a world leader in a transition which is already on the agenda of countries such as China promoting 'green growth';
- the need to review our economic relations with third countries for each chain of values, which will have certain consequences on trade flows, employment and the fight against poverty;
- the need to direct financial flows,
- the need to involve the 'classical' industry which is changing heavily to become more green, resource efficient, as SPIRE demonstrates.

This is why 'sectoral platforms' will be needed to address targets and secure their implementation. Here an example.

### **European P Platform.**

EPE is hosting the European Phosphate Platform which works in synergy with and the support of the Dutch and German Phosphate Platforms at Member State level and the Flemish Phosphate Platform at regional level.

### **Overall vision and objectives:**

These are defined as below by the declaration signed by 150 persons and organisations at the European Sustainable Phosphorus Conference, 6-7 March 2013:

- *Bring together knowledge and experience necessary to strengthen innovation and knowledge through the EU for better stewardship of phosphorus, to recycle more and to create green jobs within the framework of a circular economy;*
- *Contribute to formulating a knowledge agenda which can be connected to the research and innovation agendas of Horizon 2020 and the EIPs on Raw Materials, Water and Sustainable Agriculture;*
- *Circulate information and promote sustainable phosphorus management and related job creation;*
- *Work together closely in the precompetitive phase of innovation, to exchange experience, best practice and benchmarking*

This Declaration also indicated initial actions for the Platform:

- *Networking and exchange to monitor, share information, develop input, feedback and representation on:*
  - *phosphorus data collection: phosphorus flows, resources, recovery potential, uses, including information on contaminants;*
  - *regulations, new technologies, interferences, impact assessments, monitor P-recycling and P-stewardship policies and international benchmarks of processes, cost models, product norms;*
  - *business models and experience, business cases and viable routes of P-recovery and –treatment in the context of a developing market;*
- *Economics and jobs: identify policies to develop jobs and industries involved in the context of geopolitical and market developments;*
- *Develop proposals for project funding, eg. in the context of Horizon 2020 and the EIP's on Raw Materials, Water and Sustainable Agriculture;*
- *Circulate information by newsletters, website and a project and experience data base.*

### 3. European Covenants.

We are faced with the need to step up the ecological and energy transition in Europe and in the world. "Stepping up" this transition also requires "innovation", both as regards the forms of cooperation among stakeholders and as regards content. The "new capitalism" which is becoming perceptible will be based on "shared value"<sup>4</sup>, a new approach of long term risks and investments, a redefinition of performance with rewarding schemes of environment-social-governance performance (ESG)<sup>5</sup>, new forms of "transparency", "dialogue", "cooperation" and "partnerships" for a "just" transition marked by "solidarity" in an interdependent world.

We think the concept of 'European Covenant' – as you have 'Dutch Covenant' – should be applied at EU level.

We will need 'European Covenants' to act as 'levers to accelerate the re-industrialisation of Europe in a circular economy' in three particular fields :

- Raw materials partnerships & value chain management
- Capital Stewardship
- Energy.

We are presenting a proposal in the framework of the EIP Raw Materials.

The Raw Materials Covenant Signatories should commit to provide in one year time a baseline inventory and submit a Raw Materials & ESG Action Plan – with

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<sup>4</sup> *Creating shared value.* Michael E. Porter, Professor at Harvard University, and Mark R. Kramer, senior fellow of the CSR initiative at Harvard's Kennedy School of Government (co-founded FSG).

<sup>5</sup> As in Alcoa, Axa, BHP, Crédit Agricole, Danone, France Telecom, Solvay/Rhodia, Nestlé, Marks & Spencer, Novozymes, Ricard, Hoffman-La Roche, la Poste, Vivendi

monitoring, reporting, verification and rewarding mechanisms. The text below is a copy and paste of the CoM

*In order to translate their commitment into concrete measures and projects, Covenant signatories notably undertake to prepare a Baseline Inventory and, within the year following their signature, submit a Europe 2020/2050 Action Plan endorsed by their Board and outlining the key actions they plan to undertake.*

*A European Secretariat will collect the results of signatories' actions. These actions will serve as examples for others to follow, notably through referring to the "Benchmarks of Excellence", a database of best practices submitted by the Covenant signatories. The Secretariat will facilitate biennial joint progress reviews.*

*The Catalogue of Europe 2020/2050 Action Plans is another such unique source of inspiration, as it shows at a glance the ambitious objectives set by other signatories and the key measures they have identified to reach them.*

The Raw Materials & ESG Action Plan should be based on :

- Objectives: Implementation of EIP vision and innovative pilot action targets
- Access to information within the new context of the knowledge-based society of the value chain interested parties
- Cooperation with non EU countries signatories of a partnership agreement on raw materials
- Reporting on performance
- Rewarding performance schemes for Corporations involved (bonuses, stock options, etc.) in connection with innovation, raw materials recycling targets, environmental, social and governance criteria (ESG).
- Monitoring and verification: a system which would be supported by the EU, governments, UN agencies and environmental agencies. Verification might be provided in particular by sustainable development rating agencies.
- Dialogue: a virtuous circle would be started and amplified by dialogue – on the basis of reports – among interested parties. It would be initiated by the EIP High-Level Group and be developed in the form of open coordination multi-stakeholder platforms within the value chain

Such Covenant joint performance evaluation system should be designed in the form of a cycle and should address (i) funding, eco-innovation and new technologies, (ii) re-industrialising Europe in a circular economy (iii) value chain management, (iv) how to scale up and replicate pilot projects that have received a positive evaluation, (v) coordinated measures to build up state capacities in the partner countries.

#### 4. Link performance rewarding and ESG Objectives.

Rewarding ESG performance is an important 'systemic issue' to bring 'sustainable development' to the Board Room, accelerate the transition towards a low carbon and resource efficient economy, to develop new business models and to invest in eco-innovation.

25% of short-term objectives and 50 % of long-term objectives senior management in bonuses should be linked with sustainability performances.

Rating Agencies should use "integration of ESG into executive pay" as a key indicator of a company's risk management performance. The long-term prosperity of a corporation may well depend on its environmental performance and stock investors expect to be well informed.

The EU regulation on ESG reporting - to be adopted by the Council and the Parliament - should make the disclosure and reporting of a company's - including the financial industry - ESG rewarding performance scheme mandatory as a way to gauge the company's contribution to society and the company's license to operate.

#### A new vision

- The "Integration of ESG into Executive Pay" requested by Institutional Investors members of PRI is a major step forward towards "Sustainability", and should be seen by Companies as a very strong signal to act.
- Institutionalizing a reward system based on measurable performance and incentives for environmental/sustainable improvements, serves as a potential mechanism to enhance a company's sustainability performance.
- A system of risk management and company resilience related to resource efficiency and climate change needs to be linked with bonuses.
- Incentives is a main 'enabler'. This issue needs to be addressed at two levels: the senior management on one hand and employees on the other hand.
- Rewarding sustainability performance is a key driver for change all along both the Company decision and supply chains as it can be observed in several front runners companies.
- With an ESG Rewarding Scheme, Companies will bridge the gap between 'green/sustainability statements' and 'action', build trust and increase their competitiveness.

#### From an operational perspective

- Integrated business decision tools. ESG Matrix, indicators, criteria need to address ESG rewarding methods.
- Targets need to be adapted to the business context, its local environment, to society more broadly and to local expectations.

- Set cascading targets with a value chain perspective.
- Set deployment indicators with intermediary steps and measures.
- Pedagogy. The need to adapt the system to the different levels of understanding of the employees
- Meaningful for the employee. Link issue with 'my job, my share', 'people safety'.
- Trace progress with employee perception surveys
- Disclose. Be transparent. It is essential to disclose the rationale, the method and the challenges, the ESG rewarding guidelines of the 'sustainability committee' (if any) and the 'remuneration committee'.
- Fairness. ESG contribution needs to be assessed at the right level
- SMEs as key actors in the value chain to be encouraged and helped to develop ESG rewarding schemes adapted to their needs.

Both ESG Remuneration incentives and ESG Reporting are steering companies in the right direction and should be part of 'Integrated Reporting' and Business Awards. It promotes integrated thinking, decision-making and actions that focus on the creation of value in the long term, as well as short and medium term, enhances accountability and stewardship with respect to the broad base of capitals (financial, manufactured, human, intellectual, natural and social).

There are Companies acting as front runners in terms of ESG rewarding schemes. Now is the time to make it mainstream to make Europe more resilient and competitive.

Today Europe counts 40.000 large Companies. Only 3.000 are disclosing environmental, social and governance performance information or data (ESG performances). Evaluation is important in our society. We need to make public a list of Companies having such ESG rewarding scheme system in place.

### **In conclusion.**

The risks and uncertainties related to the relevant sustainability issues (climate, access to resources, biodiversity) their impact for society (as quantified in a reference in the McKinsey Global Institute 2011 report on Resource Productivity in the order of 5000 to 7000 billion annually) as well as the profit potential of eco-innovations should be key drivers of new business models. The report 'Planetary Boundaries' (2009) provides nine focal areas for a 'safe operating space for humanity' to be addressed in a Company's ecological transition strategy.

Business is instrumental in bringing about the transformation in society and in the economy towards sustainability at the global scale. Business models are experiencing revolutionary changes.

We are entering into a new generation of sustainability practices with a number of innovative approaches moving from niche markets to mainstream market.