

# What is the business case? Circular economy and the European Semester

Session report Green Week 2014 session 5.4

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This session aimed at presenting the 'greening' of the EU Semester as a multi-sector, multi-actor and multi-level governance approach and explored the 'business case' dimension of EU economic governance. Three speakers represented, respectively, perspectives from a think-tank, a policy maker and practical support to businesses.

The meeting room was fully occupied (ca. 100 pp), with an additional 20 people watching a live stream in another room.

The three PPT presentations of the speakers can be downloaded here:

<http://www.greenweek2014.eu/05062014-5-4.html>

A video registration of the session will be available on <http://www.greenweek2014.eu/index.html>.

## Take-away message

1. The session on Greening the European Semester made clear how enormous the potential is to shift taxes from labour to resource use. 51% of all tax revenues in the EU comes from tax on labour, which causes unemployment and underuse of human capital. The circular economy requires labour-intensive business models, such as repair, R&D and recycling, and so the current tax system is a barrier for a circular economy to emerge; a tax shift which decreases the costs of labour and increases the cost of natural resources is a pre-condition for the circular economy. It is therefore very good that the Italian government has announced that they will for the very first time organise, in July, a joint informal Council of environment and labour ministers to discuss circular economy and green jobs.
2. The session also showed that hands-on support to enterprises on resource efficiency is a serious business case, both to individual company's growth and to the wider economy, with projects able to deliver 1:20 or more return on investment to the public purse. Existing best practices should be scaled up.

## Introduction by Aurel Ciobano-Dordea (ACD)

The European Semester is about making the EU more competitive for the future. This is a process involving public and private partners. This session aims to link the views of policy-makers and those who work with private entrepreneurs to deal with the issue of scarcity of resources and other themes of the green and circular economy.

### **Femke Groothuis (FG), President, Ex'Tax, The Netherlands:**

#### **Shifting taxation: key to an inclusive, circular economy**

While only 0.3% of the tax revenues in the EU stems from taxation on resource use and pollution, and total environmental taxes account for 6% of the revenues, still 51% of the revenues are from taxing labour. This makes labour very expensive. The problem is that circular economy requires labour-intensive business models, such as R&D, repair, maintenance and recycling. Currently, for example, TVs and other equipment are hardly repaired due to the relatively high costs of labour and low cost of new products. Lowering taxes on labour will be essential in the battle against unemployment and helps making better use of our human capital.

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Ex'tax is developing a policy toolkit of options, illustrating the 'buttons' governments could press to lower labour taxes and increase taxation of the use of natural resource consumption. The preliminary toolkit scheme shows that there is a wide range of options for resource taxation, ranging from carbon emissions, water and waste to ecosystem services and air pollution ('scarcity of clean air'). The counter argument that labour tax is stable in terms of revenues and environmental tax is not, is incorrect as labour taxes are resulting in companies shifting jobs to low wage countries and expelling people from production processes, whereas the palette of environmental taxes is so broad that if one factor decreases, there are plenty options to shift to other resource or pollution themes. The ambition of Ex'tax is, after they will have finished their first case study on the Netherlands (with the support of the four big accountancy companies Deloitte, EY, KPMG Meijburg and PwC), to do case studies for other EU Member States as well as on EU level.

**Paolo Soprano (PS), Director, Ministry of Environment, Land and Sea, Italy:  
Greening the European Semester and the Europe2020 Strategy**

According to the Italian Environment Ministry, the Annual Growth Survey (AGS) 2014 showed already some environmental references, but this needs to be strengthened in the AGS 2015. The Italian ambition is to include an indicator on resource productivity in the AGS, as well as a headline target in the revised EU2020 Strategy. Having such an indicator in the AGS implies that the Member States should report on resource productivity in their annual National Reform Programmes, and that the Commission can propose Country Specific Recommendations on this topic.

On 16<sup>th</sup> July 2014, the Italian Presidency organises an informal Environment Council which will discuss greening the European Semester and the EU2020 Strategy revision.

On 17<sup>th</sup> July, for the very first time a joint informal Council will be organised of the environment and labour ministers, to discuss the green economy and green jobs.

Italy recently has taken legislative measures which address greening of the tax system. A law is currently under discussion in the national Parliament addressing various issues, including green public procurement, environmental accounting and a catalogues of environmentally friendly and environmentally harmful subsidies.

**Samantha Nicholson (SN), ENWORKS, UK:  
Supporting the transition to a low carbon economy**

The REGIO Stars 2013 award-winning service, ENWORKS, has been delivering hands-on, concrete support to businesses in North West England for over 10 years to help them reduce their resource use and improve their profitability and productivity. This project was co-financed 50% by the European Regional Development Fund and 50% by national funds. Their support also includes risk prevention (e.g. measures to meet rising supply chain demands for environmental performance and prevent damage by flooding). In addition, they now support companies in the low carbon & environmental goods and services sector. As well as on-site support, ENWORKS also helps companies stay abreast of the issues, e.g. through *Green Intelligence*, their fortnightly email bulletin.

ENWORKS frames its services to companies not in terms of environmental protection, but in terms of economic benefits. The results, however, which are measured permanently with web-based software, are also shown in terms of benefits for the environment.

Experience shows that the market failure on this agenda is so great that companies seldom take the initiative themselves to access help: resource efficiency support therefore is in practice not demand-driven but supply-driven. Moreover, services must go beyond identifying improvements as companies need 'hand-holding' through a change process: on-going support is needed to implement the achievements.

**Discussion**

"Politicians have been slow to change their mindset of linear economy, perhaps because circular economy proposals have focussed on macro-economic tools like taxes. Would it be helpful to also consider micro-economic tools, that directly influence prices and decisions towards circular economy? This could show politicians the new paradigm so they can see that a tax shift makes sense."

**FG** agreed, saying that circular economy proposals should include a range of tools, but added that taxes work on all levels: a tax system at macro level which maintains high labour taxes, results in you buying a new TV when the old one breaks down (micro level). Taxes influence every consumption decision that we make.

“What is the European dimension, especially in the light of the increased euro-scepticism? For European tax initiatives you need unanimity, which you will never get. How can we justify the opportunity cost of EU financing?” **PS** answered that the role of the EU is to support national efforts to resolve economic and social problems. This should be done in a ‘brotherly’ way, in line with the Stability and Growth Pact obligations and the Europe 2020 Strategy. **FG** added that unemployment is probably one of the main drivers of anti-European feelings; a tax shift leading to more jobs would therefore be highly needed. A ‘coalition of the willing’ amongst Member States on a tax shift from labour to natural resource consumption is long overdue, as the Commission has been calling for Member States to implement such tax shift ever since the early 1990s. In addition, labour taxes are not stable revenue producers anymore, so new solutions are required. **SN** said that European and other public funding stays necessary; because the markets are not creating solutions themselves (market failure).

**ACD** argued that all Heads of States have agreed to the voluntary, consensual and peer-reviewed Semester process, so Member States should stick to their decisions and implement the Semester Recommendations in the spirit in which they are intended. In addition, the Semester is a policy process, but we also have legal tools. For example, in the Circular economy package which is due for adoption by the Commission soon, there will be proposals to revise waste targets.

So far, the Semester has focused on structural measures to help us out of the economic and financial crisis. Now would be the time to start relating more to modernising our economies to make them future-oriented and more competitive. This includes making them greener.

### **Green Week 2014 Closing session**

In his closing remarks of the Green Week 2014 later on 5<sup>th</sup> June, Commissioner Potočník referred to the themes discussed in the session as follows:<sup>2</sup>

- “We learned about the power of relatively small changes in taxation to nudge behaviour of individuals, households and companies in the circular direction, and the need for Member States to share experience on this.
- We learned of the enormous potential for entrepreneurs and SMEs in the circular economy, but also the importance of targeted information for SMEs, environmental legislation that takes into account the limitations of SMEs, and for tailored financial and technical assistance for SMEs.”

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<sup>2</sup> See [http://europa.eu/rapid/press-release\\_SPEECH-14-434\\_en.htm](http://europa.eu/rapid/press-release_SPEECH-14-434_en.htm)