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accompanying the

**COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN
PARLIAMENT, THE COUNCIL, THE EUROPEAN ECONOMIC AND SOCIAL
COMMITTEE AND THE COMMITTEE OF THE REGIONS**

**on the Sustainable Consumption and Production and Sustainable Industrial Policy
Action Plan**

SUMMARY OF THE IMPACT ASSESSMENT

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This impact assessment report accompanies the Proposal for a Communication on a Sustainable Consumption and Production and Sustainable Industrial Policy Action Plan. This Action Plan is the overarching element of a package of measures that will also include concrete legislative proposals. This impact assessment focuses on a proposal for an extended Integrated Package, which could improve the environmental performance of the European Union through the promotion of production and consumption of environmentally better performing products.

The IA identifies several market failures that EU policy currently already addresses or where there could be a need for some form of public intervention:

- Environmental externalities resulting from prices not reflecting the negative environmental impacts of the production or consumption of products,
- Information asymmetries due to high transaction costs for consumers to obtain relevant information on product characteristics that influence environmental performance,
- Bounded rationality meaning that even well informed consumers do not always act rationally in the sense of taking a long term view when making purchasing decision,
- Principal agent problems as a result of a misalignment of incentives between economic actors ,
- And negative effects of these market failures on innovation.

In addition there are what can be described as regulatory failures as, for example, some Member States' actions in the area of procurement or incentives can fragment the internal market for products.

Although there are already policies in place on greenhouse gas emissions, air and water quality, waste, product policy, energy efficiency, etc. that address these market failures, several problems remain. The analysis shows that some environmental externalities could be avoided without incurring additional costs. More important however is evidence that information asymmetries are not being addressed sufficiently by existing tools and that even when they are, there is evidence that without updating the information provided by labels (such as the energy efficiency label) they lose their informational value, and thus usefulness, over time. Moreover, there is evidence to suggest that even if consumers have all the necessary information to make purchasing decision based on what is in their best private and social interest, they fail to do so because of short-sighted behaviour. Principal agent problems persist in the area of housing and existing policies related to energy performance of buildings cannot reduce them substantially in the near future. Due to the existence of remaining market failures, incentives to innovate are less than socially optimal.

Furthermore, a multitude of diverging national criteria exists with respect to Green Public Procurement rules and incentives. This leads to fragmentation of the internal market that should be avoided. Finally, the policies in place are not sufficiently aligned and linked with each other to realise synergies but send conflicting signals and have gaps that lead to a fragmented regulatory framework rather than a consistent one.

The general objective of the action plan is to render the EU's product policy more effective, thus contributing to the goals of the Lisbon Strategy and those of the Reviewed Sustainable Development Strategy.

More specifically: to raise dynamically the market share of products with more environmentally performing features; to provide consumers with relevant information on product performance; to help overcome problems caused by a misalignment of incentives without prejudice to the rules of the Treaty, in particular State aid rules, and to reduce the potential for suboptimal outcomes as a result of myopic consumer behaviour; to avoid fragmentation of incentives and stimuli; to remove barriers to trade to ensure that Environmental Industries can benefit from the advantages of the Internal Market; and to maximize the environmental contribution of the EU's standards internationally whilst ensuring that the possible short run incidence on the competitive position of EU industry is addressed, where necessary.

Three options were considered to address these objectives: no further action or the baseline scenario (no change of existing policies) and two alternative packages of measures.

The no further action option would imply that the identified market and regulatory failures would not be addressed.

The first alternative package is mostly focused on enhancing the role of the voluntary eco-label scheme and linking it with other policies. This option would promote a combination of instruments that would reinforce voluntary actions (Eco-label, Open Method of Coordination for the use of incentives, without prejudice to the rules of the Treaty, in particular State aid rules), promote Environmental Management and Audit Scheme, Green Public Procurement and identify internal market barriers for eco-industries (competitiveness screening). The different market and regulatory failures would essentially be addressed through the provision of information and the development of voluntary incentives. The co-ordination of existing policies would be done within the existing framework.

The second alternative package consists of a set of measures that are centred around an extended Integrated Package. This option would integrate a set of instruments to extend the scope of mandatory actions (Eco-design Directive for Energy Using products, Energy Efficiency Labelling Directive, including mandatory level of product performance for public procurement) and link them with voluntary actions (Eco-label, Green Public Procurement, Environmental Management and Audit Scheme). The use of incentives by Member States would be further harmonised without prejudice to the rules of the Treaty, in particular State aid rules, and internal market barriers for eco-industries would be identified (competitiveness screening). The difference to option 2 is that this option places greater emphasis on mandatory requirements.

The analysis of the impacts of each option presents a qualitative assessment of the positive and negative impacts. It gives an indication on the extent to which each of the options can resolve the remaining market and regulatory failures established in the problem definition as well as indications of potential drawbacks or costs. A quantitative estimation of the effects on product prices, resource use, life-cycle costs and CO₂ emissions are provided for a number of product categories for which data is available. The analysis is indicative only since a comprehensive quantitative assessment would require large amounts of detailed data, which is not currently available, and complex modelling that would go beyond the scope of proportionality for this impact assessment.

Given that the Action Plan does not represent a concrete legislative proposal and that the detailed impacts of any measures that may subsequently be adopted will be analysed in separate impact assessments, the level of analysis is deemed proportionate. Individual impact assessments will be carried for each of the envisaged measures and more detailed analysis will be provided for these.

The conclusion for this impact assessment is that the second package of measures is preferable, which rests on an extended Integrated Package based on the Ecodesign Directive and a more harmonised use of criteria for Public Procurement and incentives across the European Union. This option would enable substantial improvements in resource efficiency and reduce environmental externalities.

The action plan will be regularly monitored in order to adapt the actions and optimise the impacts in a cost-effective manner.