

**Brussels, 20 September 2007**

## **Orgalime comments to Commission Stakeholder Consultation on Action Plans Sustainable Industrial Policy and Sustainable Consumption and Production**

Speaking for European engineering, **ORGALIME** represents **3 industrial branches** (electrical & electronic, mechanical engineering and the metal articles & metalworking) that manufacture over **27% of total EU manufacturing output** and has **35 member** trade federations in **23 European countries**. The industry accounted for some 1,779 billion euro in 2006. The industry not only represents more than one quarter of the output but also a third of the exports of the EU's manufacturing industries.

**Orgalime wishes to comment on the Commission stakeholder consultation questionnaire on the Action Plans on Sustainable Industrial Policy and Sustainable Consumption and Production as follows:**

### **BARRIERS AND OPPORTUNITIES**

#### **QUESTION 1: What is your opinion on the following statement?**

**There is a need for further action towards reaching a more sustainable industrial policy as well as more sustainable consumption and production patterns.**

Orgalime reply: Orgalime generally agrees with this statement, but we believe that such further action should not result in undermining the competitiveness of EU engineering industries, but should help to improve EU framework conditions for engineering companies operating in the EU. Orgalime believes that the existing EU legislative framework provides sound and reliable instruments to address the main outstanding issues within our industrial sectors, in particular through the Eco Design of Energy Using Products Directive, which addresses *all* environmental aspects, including energy, from a life cycle perspective.

We take the view that where regulators decide to take further action, the **costs of reduction per ton CO<sub>2</sub>** should be the guiding principle for identifying actions to promote sustainable industrial policy and sustainable consumption and production patterns. Such cost benefit analysis preceding a particular measure should, in our view, be coupled with an analysis of the capacity of the economy as a whole as well as the capacity of companies to bear additional costs without having to relocate their production outside Europe. Contrary to the background paper item 2, sustainability, we believe, should not be taken as environmental sustainability only, but should include on an equal footing environmental, social and economic sustainability.

*Orgalime, the European Engineering Industries Association, speaks for 35 trade federations representing some 130,000 companies in the mechanical, electrical, electronic, metalworking & metal articles industries of 23 European countries. The industry employs some 10.6 million people in the EU and in 2006 accounted for some €1,779 billion of annual output. The industry not only represents more than one quarter of the output of manufactured products but also a third of the manufactured exports of the European Union.*

Future actions should at the same time safeguard the benefit that the internal market offers for the consumer, namely an as broad as possible availability and choice of different products with different technologies and competitive prices for the EU citizen.

Finally, global challenges, such as climate change, require global solutions. Orgalime therefore underlines the importance of fostering international commitments to act.

**QUESTION 2: What is your opinion on the following statement?**

**The five key challenges to promote a more sustainable industrial policy and to change unsustainable consumption and production patterns are:**

- \* **Leveraging Innovation**
- \* **Better Products**
- \* **Leaner and Cleaner Production**
- \* **Smarter Consumption: changing behaviours**
- \* **Creating global markets for better products**

ORGALIME reply: Orgalime agrees in principle; however, there are certain misunderstandings related to the proposed headings:

- *“Leveraging innovation”*: The industry we represent finds working with EU funding a feasible proposition. Also, the presented “lead market concept” of the Commission focuses on a “top down” approach driven by technology. Our industry believes that innovation is essentially - and should remain - driven by the market, that is the end user, either private or professional. Rather than talking about technology driven lead markets, as proposed in the consultation background paper, we suggest discussing lead *customer* markets: this is where our industry would gain advantages of being first movers in technologies, which are developed and applied first in Europe due to the demand of its customer base. For example, we can cite that EU manufacturers are world leaders in automation for the machinery and automotive sectors due to the continuous demand of these sectors for innovative product. In conclusion, it should be the customer, private or professional, who determines what would be a lead market rather than the state or government.
- Also the heading *“better products”* is, to our mind, misleading since it provokes the incorrect conclusion that only bad or less performing products were available on the European market today. Actually, the opposite is often the case: there are numerous products of best available technology on the European market for the consumer to enjoy. Other innovations are in the pipeline. European manufacturers are world leaders in many areas for both, consumer and capital goods (e.g.: automation technologies, energy production and distribution technologies, mobile phones, network equipment, machinery, a number of different products in the white goods sector). However, it is a fact that the available more energy efficient products are not necessarily those bought by consumers; this, in our view, is often due to the fact that besides aspects, such as quality, performance, fitness for purpose, design or lifetime, it is still the initial purchase price that determines the consumer’s final choice. His/her awareness on the compensation of potentially higher purchase prices by energy savings through reduced running costs of the product during their use phase could still be significantly improved. In our view, one key issue for many product groups would be better market penetration of energy efficient appliances, rather than a general heading of “better products”. Alternatively, Orgalime suggests talking about “sustainable products” rather than “better” ones.
- *“Leaner and cleaner production”* in Europe is, in our mind, an issue of less significance in Europe, since production related emission issues are covered by multiple existing legislation, e.g.: the Air Quality directive, the IPPC directive, the Seveso directive or the LCP and NEC directives. Before adding further requirements or introducing new approaches to such existing regulation (such as a suggested trading scheme for NOx and SO2 under the IPPC directive), we suggest pursuing proper implementation of the existing legal framework, especially as far as directive 91/61 on Integrated Pollution, Prevention and Control is concerned. In addition, in industries, such as the EU metalworking and mechanical engineering industries, where energy constitutes a non negligible part of the

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production costs, companies are already exploiting energy savings measures to a large extent, since input costs have a direct impact on the product price and consequently on its competitiveness. However, further progress can be achieved in areas, such as the introduction of electrical drives in motors, in lighting etc. Significant energy savings can also be achieved by investments in electricity network structures to reduce present energy losses in the network and transmission.

- “*Smart consumption*” in our view is a smart heading, however, environmental performance agreements with retailers bear the risk of creating dominant positions for retailers and distributors in the market place. We believe that any action towards smarter consumption should fully respect the sovereign right of the consumer to choose the product that best fits his/her needs. The role of retailers and distributors should be to provide information to the customer, so that his buying decision is based upon solid information. In a free market economy, the buying decision however should remain with the customer.
- “*Creating global markets for better products*”: See comments made regarding lead customer markets under first bullet point of Orgalime’s reply to question 2. We again suggest talking about “sustainable” products instead of “better” ones. We feel that this is an extremely sensitive area, where actions have to be developed carefully against the background of protection of IPR and European know-how. This would be particularly evident for the proposed “global sectoral approaches” under item 4.5.2 of the consultation background paper.

**QUESTION 3: Please rank the five key challenges by order of importance**

ORGALIME reply: Orgalime takes the view that the challenges of addressing the issue of market transformation towards consumption of more sustainable products, raising consumer awareness, developing lead customer markets and stimulating investment into electricity network infrastructure are of primary relevance.

**QUESTION 4: In your opinion, the order of importance of what should be the main focus of the actions?**

ORGALIME reply: Actions need to tackle environmental problems, including energy, in a cost efficient way, while avoiding negative social and economic impacts. As far as product related measures for energy using products are concerned, action should fully respect the framework established in the Eco Design of Energy Using Products directive.

**LEVERAGING INNOVATION**

**QUESTION 5: Please rank the three most important barriers for innovation towards a more sustainable industrial policy which could be considered to promote innovation on better performing technologies, products and services**

ORGALIME reply: While we recall our general standpoint that “leveraging innovation” and the creation of lead markets should be driven by demand rather than preselecting technologies, we see the following barriers for innovation towards a more sustainable industrial policy:

- A lack of reliable long term policy and regulatory orientation and stability. In particular, the multiplication and overlapping requirements in different regulations (e.g.: product design requirements in Eco Design, WEEE and Waste framework directive) are not helpful. In our view, the future action plans should take a balanced approach that encompasses energy issues amongst environmental issues over the whole life cycle of a product. An isolated focus on energy efficiency of products would conflict with the valuable framework established in the Eco Design directive, which by tackling all product related environmental aspects throughout the whole life cycle of a product, can avoid adverse environmental effects.
- Insufficient return on investment
- Insufficient consumers awareness about pros and cons of environmental product performance and how to properly use/install equipment

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- Unfair competition from other regions of the world
- Insufficient enforcement of existing legislation and too weak market control (we experience that insufficient deterrents to unfair competition can also be an incentive)
- Increasing lack of skilled personnel
- Public procurement managers do not always purchase better performing products

**QUESTION 6: Please rank the three most important options that could be considered according to their contribution to promote innovation on better performing technologies, products and services**

ORGALIME reply: We consider the following options of particular relevance:

- Cut off least performing products from the market (implementation of the Eco Design directive to help drive market transformation) and strengthen proper enforcement and market surveillance
- Enhanced incentives, including fiscal over a limited period of time,
  - for (technology neutral) energy savings investments, and
  - for individual citizens that buy (technology neutral but equally) energy efficient products.
- Enhanced awareness of private consumers on environmental performance of products, including energy (e.g.: information obligations for retailers/distributors)
- Enhanced investment in electricity network structures

Orgalime particularly opposes the proposal for a general “technology verification scheme”, which goes further than benchmarking technologies on the market.

## BETTER PRODUCTS

**QUESTION 7: Please rank the three main barriers to increase the demand for better performing products**

ORGALIME reply: Barriers are not necessarily the same in all of the broad variety of different product groups that are represented within Orgalime.

In the area of private consumer products the main barriers for demand of sustainable products in the EU generally include:

- Better performing products are too expensive (in particular, the situation is rendered worse due to the unfair competition from foreign competitors not respecting EU regulation which is made all the easier because of inadequate market control)
- Lack of incentive to purchase sustainable products
- Too limited consumer awareness of benefits of purchasing more sustainable products and/or too little and confusing information available

**QUESTION 8: Please indicate the most appropriate option which could be considered to set up EU dynamic performance systems for enhancing the environmental performance of products and boosting innovation in the EU market**

ORGALIME reply: Orgalime shares the background document’s suggestion to focus on demanding, but realistic requirements.

Eco design requirements could in our view be made more dynamic and at the same time provide a more long term perspective for companies, if a kind of “push and pull” model that combines mandatory targets and their periodical update according to B.A.T. with optional ones at the choice of the manufacturer were introduced. Such dynamic requirements should also be coupled with a positive recognition of achievements already made by the industry and particularly opt for a way that ensures reasonable return on investment.

The penetration of sustainable products in the market and the transformation of the market towards more sustainable products may, for a limited period of time and for certain sectors, be initiated by providing incentives, including fiscal incentives and awards for first movers. However, any award system should not result that the consumer would erroneously conclude that any



product not awarded would equal a "bad product". This could, for example, arise if reduced VAT rates applied for sustainable products. A positive perception of the value of the product could, in our view, be secured by including a scale that indicates the different levels of achievements and the requirements concerning the least performing product. Award schemes that appear worth investigating to us include tax credits granted directly to the consumer or cash back schemes and focused rebates for the purchase of energy efficient appliances. In principle, the definition of what would be considered a "sustainable" product should be determined from an economic perspective and therefore also consider other important factors, such as safety, fitness for purpose, quality, expected lifetime or user friendliness.

Such an understanding of combining dynamic requirements and incentives would also reflect the reality that not all companies will be in a position to make giant leaps within short time scales, which is particularly true for SMEs, while others that have the capacities and resources to move further, can do so and can expect awards for their action. We agree with the background paper's proposal that "awarding frontrunners" would have to be predictable. It would, in our view, also need to be balanced. Otherwise, there would be the risk of trading off potential energy savings and environmental product performance against detrimental impacts on the competitiveness of companies, and particularly that of SMEs.

**QUESTION 9: Please rank the three components of a product-based approach that could be considered according to their relevance for action**

ORGALIME reply: Action should generally aim at addressing products with the greatest potential for improving the environmental performance, including at the level of energy, at lowest cost per reduced CO2 ton, over the whole life cycle of the product. For energy using products, the framework and established criteria of the Eco Design directive should fully apply.

**QUESTION 10: Please rank the actions that could be considered to meet the challenge of better products according to their importance**

ORGALIME reply: Where product groups have been identified according to question 9, any action for energy using products must fully respect the framework established by the Eco Design directive. Overlapping requirements in other legislation should be removed.

The setting of eco design requirements should be coupled with support and incentive schemes as outlined under questions 6-8.

When selecting product groups for setting eco design requirements, it should be considered that significant energy savings do not necessarily relate to the particular product in question, but that significant energy savings could be realised by addressing the system into which such products are incorporated.

**QUESTION 11: Please indicate your opinion on the following options in relation to enhancing the use of eco-design instruments**

ORGALIME reply: The Eco Design directive encompasses most products manufactured by Orgalime industries. Its implementation is an ongoing process and its results need to be awaited and analysed before considering any other or further option. (Please see the separate Orgalime position paper on "A top runner for Europe").

**QUESTION 12: Please rank the three most important options which could be developed to support the development, supply and use better-performing products**

ORGALIME reply: See comments made under questions 7-9.

Regarding labeling requirements, the potential to influence buying decisions is not the same for B2B and B2C products. Improved market surveillance and enforcement activities are of utmost relevance. (Please see separate Orgalime position paper on "A top runner for Europe").

**QUESTION 13: Please indicate your opinion on the following statements**

- a) There is a need to improve synergies and coherence between product labeling schemes
- b) More efforts and transparency are required to provide high quality data and methodologies in support of environmental assessments for eco design and product labels

- c) The EU should increase its role to minimize its unsustainable consumption and production impacts overseas

ORGALIME reply:

Regarding options a) and b), Orgalime believes that there is “no one size fits all” solution. For some sectors, indeed there is a need to improve synergies and coherence between product labeling schemes, in others there is not (i.e.: B2B area). Orgalime takes the view that concrete actions require discussions with the targeted sector for an implementing measure under the Eco Design directive.

Option c), does not appear clear to us. However, it is essential to ensure that any measures introduced in the EU are followed as far as possible by our main trading partners, so as not to stimulate economic migration of production facilities to countries with lower standards and therefore lower manufacturing costs.

Orgalime also stresses that any EU action should secure European IPR and know how.

## **LEANER AND CLEANER PRODUCTION**

### **QUESTION 14: Please rank the three main barriers for the adoption of energy and resource efficient production systems in the industry**

ORGALIME reply: European engineering industries apply resource efficient production systems since production input (including energy input or materials) has an immediate impact on product price and therefore business success on highly competitive markets. Market forces therefore generally drive Orgalime industries in this area.

### **QUESTION 15: Please rank the three most important options that could be considered to meet the challenge of "leaner production"**

ORGALIME reply: Europe should stimulate investment in electricity network infrastructure.

At the level of resource efficiency, we commend the Commission on its efforts to benchmark progress in the action of increasing resource efficiency. Companies naturally try to use resources, which are becoming increasingly scarce, and consequently more expensive, as efficiently as possible. This is fundamental for increasing productivity. Setting an “annual 3% resource productivity improvement target”, based on hypothetical growth of the economy, seems to us both futile and no doubt excessively bureaucratic (e.g.: reporting costs).

Orgalime does not support establishing such a target since its non-applicability to our foreign competitors would cause negative impacts on the competitiveness of EU engineering industries. We also doubt that a “one size fits all” target can be reliably and realistically determined. We are also less optimistic that a review of the EMAS regulation or a reinforced role of the ETAP would be successful.

## **SMARTER CONSUMPTION: CHANGING BEHAVIOUR**

### **QUESTION 16: Please rank the three most important options which could be developed in order to meet the challenge of "more sustainable consumption"**

ORGALIME reply:

Orgalime supports the following options:

- Consumer information: Communications material and awareness-raising
- Consumer education/training
- Actions to address misleading advertising/false environmental claims
- Initiatives to stimulate public purchasers to green their procurement

Depending on the product group concerned, support for business models in which service provisions progressively replace material goods production, could be considered.

Orgalime rejects the following options:

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- Develop environmental performance agreements with retailers
- Differentiate tax according to environmental footprint of products

**QUESTION 17: What is your opinion on the following statement? EU-level initiatives are needed to help retailers to green the supply chain and influence consumer choices (optional)**

ORGALIME reply: Orgalime strongly disagrees with this statement. The sovereign right of the consumer to choose a product must remain. Retailers should not be an “authority”, which determines which products are allowed to be placed on the market or not. This would in our view also present problems at the level of EU competition law and the principle of free movement in the internal market, provided for in the EU Treaty. Retailers and distributors, however, play a vital role in providing information to the consumer to ensure that his/her choice is built upon correct and solid information.

**QUESTION 18: What is your opinion on the following statement? There is a need for further action to ensure the reliability of environmental compliance claims by suppliers/retailers on the environmental performance for the products they sell**

ORGALIME reply: See reply to the previous question. For suppliers of energy using products, the Eco Design directive also includes provisions on information requirements, which would be determined in individual, product specific implementing measures.

**QUESTION 19: What is your opinion on the following statement? Public authorities should concentrate their procurement on green products, even if they are more expensive**

ORGALIME reply: Orgalime agrees, as long as the selected product would represent the best product from an economic perspective.

**QUESTION 20: What is your opinion on the following statement? There is a need for additional incentives at EU level to stimulate large private purchasers to green their procurement**

ORGALIME reply: If such action is considered, then initiatives to stimulate large private purchasers to green their procurement should remain voluntary (e.g.: voluntary code of conducts).

## **CREATING GLOBAL MARKETS FOR BETTER PRODUCTS**

**QUESTION 21: Please rank the three main barriers for EU industry to export its “know-how” in terms of technologies and services in order to supply better performing products**

ORGALIME reply: Among the main reasons are:

- Better and cleaner technologies often require a higher initial capital investment, which the purchaser, both private and professional (company), is not necessarily prepared or able to pay
- Other countries may have other requirements than those defined in the EU, e.g.: coal producers with limited foreign exchange may well want to invest in coal powered electricity generation without at the same time seeking to adopt the latest CO<sub>2</sub>, SO<sub>2</sub> or other emission reducing technology
- Intellectual property rights are not always respected

**QUESTION 22: Please rank the three most important options which could be considered to help enhancing the role of EU "Know-how" internationally**

ORGALIME reply: We believe that the first mover will have an advantage in so far as technologies, which are developed, are indeed taken up both, in the EU and on export markets. We therefore strongly believe that the EU should internationalise the discussion on uptakes of sustainable technology in order to generate a real competitive advantage for first movers, rather than to

generate a potential competitive disadvantage, which may arise from developing technologies which only have a limited market.

**QUESTION 23: What is your opinion on the following statement?**

**Sectoral approaches could contribute to reduce environmental impacts worldwide while establishing a level playing field for the EU industry?**

ORGALIME reply: We feel that such actions would find a limit where IPR would be at stake. Orgalime supports to improve the scope of agreements on Intellectual Property Rights to ensure enforcement.



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