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# Memo to the commissioner responsible for environment policy

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The link between economic sustainability and the environment should be obvious, but in practice environmental policy continues to face pushback because of short-term economic concerns, and failure to account for the longer-term costs of environmental degradation. You will have to plan for this pushback in promoting policy in crucial areas including safeguarding biodiversity, water security, resource efficiency and pollution reduction.

Your best strategy may be to create stronger links between the environment and the EU's major policy goals – especially economic security and competitiveness – and to show how environmental policies are enablers of other policies. Improving environmental metrics will be important to make the case.

**Propose a green economic security strategy**

**Develop detailed sustainable competitiveness policies**

**Foster long-term thinking, especially on agriculture**

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## State of affairs

The environment portfolio lingered for many years in the shadow of others as political leaders prioritised economic policies. Since 2019 however, the European Green Deal has brought more attention and resources to environmental policymaking. A more robust legislative framework has resulted for biodiversity protection, incentives and regulation to bring more resource circularity into the European economy, and some reductions in pollution. However, progress on the environment has been modest compared to the decarbonisation of energy systems, for which the transition has accelerated since Putin's 2022 invasion of Ukraine.

**Annual species loss from land-use change will exceed the international target by 35 times in 2024**

Biodiversity and functioning ecosystems provide essentials for life including fresh water, soil fertility and pollination. Economic systems do not account for these 'ecosystem services' as having monetary value, yet economic activity cannot happen without them, and many of them cannot be substituted by human-made technology. They are still largely discounted as invisible and silent externalities, rather than as assets that have value and carry depreciation costs. Annual species loss from land-use change will exceed the international target by 35 times in 2024 (UNEP, 2024).

In addition, there are close links between decarbonisation and healthy environments. Energy accounts for about three-quarters of greenhouse-gas emissions, but nearly a fifth comes from agriculture and could be reduced by more sustainable practices. Climate change meanwhile puts more pressure on nature, as plants, animals and other forms of life struggle to adapt to sudden temperature rises, changing rainfall patterns and extreme weather. Europe is already warming at twice the global average (C3S and WMO, 2024), resulting in water stress, storms and wildfires that will recur every summer.

Many of these environmental impacts have already severely transgressed planetary boundaries, creating a high risk to the natural systems that have maintained the stable and favourable conditions in which human civilisations have developed. Although climate policy is the responsibility of your fellow commissioner, most of the other planetary boundaries (from water to biodiversity) are in your portfolio. Different forms of environmental damage

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– on land, in the seas, in the ice-caps and in the atmosphere – have non-linear interactions, meaning that larger risks are building up from the aggregate effects of ecosystem degradation. This will have damaging and volatile impacts on economies. Even if carbon emissions stop, the predominant linear 'take-make-waste' economic model is causing over-extraction from nature that damages biodiversity, water cycles and other essentials for human life and health.

Your predecessor made significant progress in areas including the circular economy (sustainable products, right to repair), nature restoration and a biodiversity strategy for 2030, material consumption and waste targets, and pollution reduction. Your focus will be on implementation of these policy frameworks in a difficult political environment, while introducing new measures on water security (including oceans), the circular single market, and chemicals. You must also build environmental risks and benefits into other policies.

## Challenges

### **Your biggest challenge is the "*tragedy of the horizon*"**

The tragedy of the horizon is the deeply embedded human tendency to discount the costs and benefits of distant events (Carney, 2015). The reality that human activity cannot survive without nature is quickly forgotten in policy debates about priorities that have a time-horizon of just one to five years.

To overcome the tragedy of the horizon, you will need to do a lot of outreach, both on the framing of existing measures to make sure they get implemented at national level, and in the form of political communication on why environmental measures go hand-in-hand with long-term economic and security goals. This is a daunting task. Therefore, you would do well to link your portfolio to the EU's major policy objectives, because that is where the power, money and political attention lie.

## **Political pushback and ‘greenhushing’**

You face a risk that environmental goals will be eclipsed by other priorities, including defence procurement and fears of de-industrialisation. Moreover, the Commission is tempted to make the environment portfolio less visible to try to prevent pushback by keeping it below the political radar

This might work in the short term but it will not build support for EU measures and it keeps environmental risks out of the public eye. To sustain implementation of EU-level policies and laws, you need to explain the scientific realities over and over. This is important for the environment, but also for the economy, given the investments already made in sustainable products, services and technology by both the private and public sectors. After the difficulty and delay in the adoption of the Nature Restoration Law<sup>1</sup>, it will be hard to get attention for the other elements of the Biodiversity Strategy for 2030, such as the Soil Monitoring Law and the EU forest monitoring framework.

**Environmental stresses and disasters could have a perverse impact on politics; voters may turn inwards**

The increasingly obvious physical effects of nature degradation will reinforce your case, but environmental stresses and disasters could have a perverse impact on politics. Voters may turn inwards, encouraged by populists who argue that their interests are threatened by moves away from the linear, brown economy. Instead of favouring systemic solutions, people may seek to hold on to what resources and assets they have. To widen mental horizons and combat disinformation, you will need to work with a wide range of politicians across many parties.

## **The impact of water stress and climate change on nature**

Biodiversity loss is likely to increase over the next years because of the stresses of climate change. Water stress will also worsen as evaporation increases because of higher temperatures and rainfall decreases around the Mediterranean basin. Elsewhere in the EU, extreme rains and floods are becoming more frequent, endangering lives and leading to heavy economic losses, releases of pollutants and harms to biodiversity.

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<sup>1</sup> Finally approved in June 2024; see Council of the EU, ‘Environment Council, 17 June 2024, main results’, <https://www.consilium.europa.eu/en/meetings/env/2024/06/17/>.

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### **The economic and human costs of pollution**

Air pollution kills 300,000 Europeans per year according to the European Environment Agency, while reducing worker productivity, agricultural yields and carbon sequestration by plants – and there is clear evidence that productivity improves when air pollution declines (Dechezleprêtre *et al*, 2019). Water pollution and soil degradation also reduce agricultural productivity over time. Full implementation of EU environmental laws could save tens of billions of euros every year in health and other costs, so going slow on implementation is costly.

### **Agriculture and nature**

Pushback by the agro-chemical industry against green measures is likely to continue for as long as the EU continues to subsidise large-scale, industrial farming. The next major opportunity to re-think agricultural policy will come with the negotiations for the next EU budget (multiannual financial framework, MFF). Agricultural sustainability measures will be vital to reduce emissions, but also to maintain biodiversity and reduce water and air pollution from nitrates and fertiliser use. However, the Common Agricultural Policy is arguably the EU's most reform-resistant policy.

### **Transition to a circular economy**

The focus of the EU's circular economy strategy has broadened from waste management – recycling and end-of-life disposal – to a wider economic paradigm that includes product design and empowering consumers to choose more sustainable options. Much greater gains can be made by designing products and buildings at the start of life for durability, resource efficiency and ease of re-purposing and re-use.

However, achieving EU goals relies on countries adopting their own circular-economy strategies, most of which remain generic, without binding measures or solid timeframes (EEA, 2024). Better governance through accountability and enforcement will be needed to decouple economic growth from resource use and to meet goals such as halving residual municipal waste within a decade.

There is still no widespread understanding of the near-term or longer horizon risks posed by losing the services that nature provides for free

### **Lack of metrics for cost-benefit calculations**

The costs of environmental policies are widely discussed and calculated in terms of trade and competitiveness, but the costs of pollution and waste are not subject to the same denominators and are often not included in cost-benefit calculations. There is still no widespread understanding of the near-term or longer horizon risks posed by losing the services that nature provides for free, and few metrics are available for valuing those services in monetary terms. Calculations of the effect of lessening the pressure on nature appear only rarely in economic thinking, for example by applying concepts such as sufficiency or *sobriété* to reduce the rate of extraction from nature through demand reduction, greater resource efficiency and a circular economy.

The value of biodiversity is particularly difficult to measure. It consists of many elements that are not amenable to quantitative indicators, being silent and invisible, and the quality of the integral system is more important than the individual elements.

A further area where metrics need development is avoided costs and negative impacts. Nature plays a major role in reducing emissions and avoiding disasters, but these contributions rarely appear in financial and economic systems. These accounting challenges have long caused environmental objectives to lose out in the competition for investment – even with other aspects of the green transition. For example, risk assessments suggest that biodiversity collapse is a more immediate threat than sea-level rise, but the potential costs – such as the economic impact of key pollinators becoming extinct – is little discussed in policy debates.

### **Green global reach**

The negative reaction of EU trade partners to the Deforestation Regulation (Regulation (EU) 2023/1115) shows how the global impact of EU environmental measures can cause tension. To prevent similar shocks, you need to start diplomatic outreach on other environment measures early. But external impact assessment – which is one of the proposed solutions – could stall progress in Europe, so you will have to find a balance.

# Recommendations

You should create stronger links between the environment and the EU's major policy goals

You should create stronger links between the environment and the EU's major policy goals, most notably economic security, strategic autonomy, competitiveness and financial system stability. Environmental policies are enablers of other policies, as well as safeguards of the intrinsic value of nature.

## **Propose a strategy for green economic security**

The fastest way for the EU to achieve de-risking from toxic dependencies on imported raw materials and products is to reduce the need for those imports by moving to a circular economy. This does not mean that the EU should become a self-sufficient economy or introduce protectionist policies, but rather that it should prioritise the elimination of wasteful use of materials and energy in both production and consumption, keeping products in use for longer and getting the most value from materials by recovering and repurposing them. The demand side of the green transition has received little attention, with most focus on the supply side – seeking alternative sources of energy, materials and manufactures. But there is great potential to reduce demand by incentivising resource efficiency and optimising provisioning systems (UNEP, 2024).

A more circular economy would be more secure and resilient when shocks come, as shown by the fragility of long global supply chains during the COVID-19 epidemic. Development of a circular economy is important for de-risking in preparation for future emergencies.

## **Develop detailed policies for sustainable competitiveness**

Competitiveness tops the EU's economic priorities and environmental objectives are often portrayed as being in opposition to it. You need to make the case for synergy, particularly in relation to the circular single market.

By increasing efficiency in production of goods and how long they are used for, the EU could achieve greater productivity, which will enhance the competitiveness of EU firms. Europe is poor in energy but rich in human capital and world-class in creating

regulations that often set global norms. Other countries are also moving towards encouraging circularity because of the rising costs of managing waste, and many European companies have solutions and technology to export.

### **Focus on the Circular Economy Act**

You can make a major contribution by developing the policy framework to enhance Europe's comparative advantage in producing the most energy and resource-efficient products and services. Commission President von der Leyen has committed to a new Circular Economy Act, helping to create market demand for secondary materials and a single market for waste, notably in relation to critical raw materials, with the aim of a creating more sustainable pattern of production and consumption and retaining the value of resources in the economy for longer. This Act should be a centrepiece of your mandate.

The EU sets global norms for eco-design, repairability, durability and recyclability through its rules on sustainable products, soon to be enhanced by the rollout of digital product passports. If the move to circularity stimulates innovation to make products that are more durable and resource-efficient, it will create lead markets and European companies will have the edge in designing products that meet the highest global standards, and in building supply chains for recyclates and recycled materials.

### **Work with central banks and regulators to reduce environmental risks to financial stability**

If ecosystems continue to be degraded, crises such as water shortages or collapse of pollination will occur, with drastic and long-lasting effects on business continuity and wider society. The risks of environmental degradation need to be built into prudential supervision of the financial sector, given that three-quarters of euro-area bank loans are to companies that are highly dependent on at least one ecosystem service.

These risks are important to central banks because they can cause supply-chain disruptions that affect prices and ultimately inflation. However, central banks, financial regulators and credit agencies cannot introduce policies and laws that would reduce

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these risks. Your role will be important in guiding the creation of new policy frameworks for valuing nature to complement the risk-based approaches of your colleagues responsible for economic portfolios.

### **Establish climate adaptation planning**

President von der Leyen has proposed a European Climate Adaptation Plan to support countries notably on preparedness and planning and to ensure regular science-based risk assessments, including a new European Water Resilience Strategy.

For this, a cross-portfolio approach will be needed, working with your colleagues with responsibilities for the Mediterranean, climate and humanitarian response. Your role will be to look for solutions that work with nature rather than against it. For example, transfer of water from one place to another causes harm to ecosystems. Pressure could come for emergency measures that cause longer-term harm, such as flood protection walls that destroy more nature or uncontrolled proliferation of private wells. You need to put forward green infrastructure solutions, such as restored wetlands and tree cover.

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### **Foster long-term thinking for the next generations**

The voices of those who benefit from the current economic system are loud, and many are well organised. However, the people and companies who will lose from environmental degradation in the future are often unaware of the severity of future impacts, or cannot speak up because they are not yet born. You should work to highlight the enormous costs of unsustainable activities on future generations, and the benefits to them of moving to sustainability now.

A particularly important constituency for this long-term thinking is farmers. In some EU countries, certain soils have a remaining lifespan of less than 100 years for food production. The range of farmers' views on future agricultural policy is under-researched. You should start dialogues with a range of different farming communities to design policies and incentive structures to ensure the long-term productivity of soil and water, in order to foster a debate about how to ensure that the value of farmland is maintained for farmers' children and grandchildren. That would create a different frame for discussion of Common Agricultural Policy reform over the next few years.

You need to take natural capital accounting to the next level by including monetary accounts for ecosystem services

### **Improve environmental metrics**

The case for environmental measures will be much more powerful if you are able to improve methods of measurement and means of showing the value of nature, as well as the risks of losing it. Cost-benefit calculations for circularity measures, such as eco-design, would help to motivate deeper and faster implementation. More precise measurement of hidden inefficiencies would show the value of greater resource efficiency. For example, in the area of ‘waste as resources’, estimates of the value of bio-waste when turned into a high-quality fertiliser and soil improver, as well as biogas (a renewable fuel), would help to encourage collection of all discarded organic material. You need to take natural capital accounting to the next level by including monetary accounts for ecosystem services.

### **Green external policies**

Other commissioners responsible for various aspects of external relations will need help to integrate environmental objectives more systematically into their priorities, focusing on energy security and independence, resilience in the face of climate-related disasters, and the value of ecosystem services – starting with the Mediterranean and enlargement countries.

## **References**

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