

Does the economic crisis slow down EU environmental policy?

The impact of economic trends on environmental policy-making

In order to explore the relationship between environmental policy-making and economic trends we propose a measurement concept that adopts an aggregate view on the development of policy actions. In a second step, we apply our concept to environmental policy-making and contrast the observed patterns with macroeconomic data.

By Yves Steinebach and Christoph Knill

In March 2012 the then Commissioner of the European Union (EU) for Enterprise and Industry Antonio Tajani announced “regulatory holidays” for the European industrial sector to ease the negative impacts caused by the financial and economic crisis (Reuters 2012). Two years later, a report of the World Wide Fund for Nature (WWF) even noticed an extensive rollback of environmental regulation as a result of the austerity measures promoted by the European Commission, the International Monetary Fund and the European Central Bank (WWF 2014).

These two incidences suggest a clear impact of economic trends on political enthusiasm in environmental policy-making. Unfortunately, we lack consistent scientific knowledge about this relationship. First and foremost, this is due to divergent and often inadequate conceptualizations of the central matter of interest – governmental activities in environmental policy and their changes over time.

In order to circumvent these shortcomings, we propose a measurement concept that adopts an aggregate view on the development of environmental policy and allows for systematic cross-sectional and longitudinal comparison. In a second step, we apply our concept to EU environmental policy-making in the subfields of clean air and water protection for the years 1975 to 2014 and contrast the observed patterns with macroeconomic data. Finally, we undertake a first attempt at theorizing the examined relationship through exploring different explanatory approaches.

The EU has become a major driver of environmental policy within and beyond its borders. Nonetheless, considering the strong economic rationale the Union builds upon, EU policy-makers have to carefully weigh up economic and environmental concerns. This feature is reinforced by the strong emphasis of the concept of sustainable development that has been adopted as a general approach for assessing economic, social, and ecological impacts of any policy initiative at the EU level.

To ensure that economic, social and environmental policies are indeed mutually reinforcing has to be seen in the context of the commitment to better regulation and, where necessary, deregulation rather than simply more and more new regulation. ‘Better regulation’ is a centerpiece of the renewed Lisbon Strategy. To make sure that regulation is used only when necessary and that the burdens they impose are proportionate to their aim, the European Commission has a number of processes and tools in place, including the withdrawal or modification of pending legislative proposals, the reduction in administrative burdens, measures to simplify existing legislation as well as the systematic use of impact assessment and public consultation in the development of new policy proposals (European Commission 2006). Overall, this makes the EU an optimal subject matter to examine the relationship between economic measures and environmental policy-making.

Assessing policy change through aggregation

There is a broad consensus among scholars that a policy is not a single entity but consists of various components (Hall 1993; Howlett/Cashore 2009). Accordingly, our measurement approach incorporates the distinction between different policy components. We argue that governmental activities are best addressed by the assessment of three distinct dimensions: policy items, policy instruments and regulatory levels and scopes (Knill et al. 2010; 2012).

Policy items refer to the specific policy targets addressed in a certain policy field and thus focus on the question who or what is exactly regulated. In the two policy subfields under scrutiny, these items may range from for instance “nitrogen oxide emissions from large combustion plants using coal” to “zinc emissions from industrial discharges into continental surface water”.

Policy instruments are an indicator of which specific tools, out of range of options, are used by policy-makers in order to achieve their targets. A specific policy item is often addressed by the use of various instruments. In broad terms, we can distinguish between traditional “command and control” instruments (Government) and modern market-based, information-based and cooperative approaches (Governance) (Knill/Lehmkuhl 2002; Holzinger et al. 2006).

The **regulatory level** refers to the exact calibration of the policy instrument. For instance, in case of an obligatory emission standard, the level prescribes the maximum admissible volume

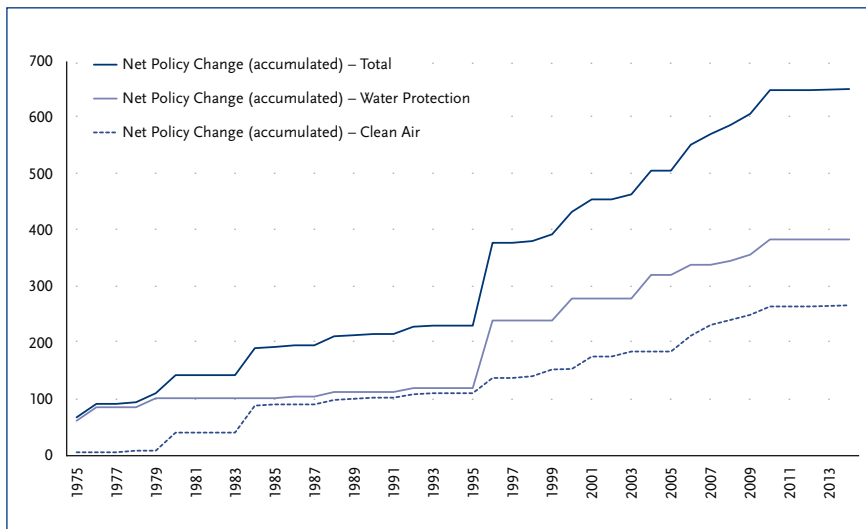


Figure 1: EU environmental policy from 1975 to 2014.

of a certain pollutant from passenger cars. In case of state subsidies, it refers to the exact amount of funding. The **regulatory scope** covers the very specific cases or addressees targeted by a certain policy instrument.

Using this basic distinction we can compare policies over time with their previous regulatory states in light of the introduction or abolishment of policy items and policy instruments and the strengthening or weakening of their regulatory level or scope.

As a result of the hierarchical structure of the dimensions, policy decisions can be weighted differently by a simple logic of aggregation. By definition changes in policy items have to involve changes in at least one policy instrument and its calibration. Following the same logic, the expansion or dismantling of a policy instrument inevitably leads to changes of the instrument's regulatory level and scope. By contrast, both regulatory level and scope may change without any implication for the other two dimensions. Such a prioritization makes perfect sense as we can expect the first-time regulation of a certain pollutant to mark a far stronger deviation from the status quo than the additional use or re-calibration of a policy measure. The same logic applies to cases in which the regulatory standard is reduced. All in all, we are now able to adopt a holistic view on regulatory activities and their changes over time by offsetting the aggregate of all events of policy expansion and dismantling, called net policy change.

EU environmental policy and economic trends from 1975 to 2014

The analysis focuses on the development of EU environmental policy between 1975 and 2014. In this context we limit ourselves to the policy subfields of clean air and water protection. Both subfields are economically relevant areas of EU politics and thus are particularly well-suited to examine the re-

lationship of interest. Our assessment relies on a comprehensive data collection comprising all relevant legal documents, namely EU Directives and Regulations adopted by the European Commission, the Council of the European Union and the European Parliament. EU Decisions are not included in the analysis since they principally apply to very specific addressees such as individual firms or member states and thus do not have a binding effect for the entirety of potential regulatory objects. In order to provide a balanced analysis, we refer to a predefined list of the most common pollutants and regulatory activities in the policy subfields under scrutiny (see Consensus 2009; Knill et al. 2010; 2012). The selection is based on extensive informa-

tion provided by the Environmental Protection Agency (EPA), the Organisation for Economic Co-operation and Development (OECD) and the Pesticide Action Network (PAN).

Figure 1 presents the development of clean air (dashed line) and water protection (lighter blue line) policy at EU level from 1975 to 2014 on the basis of the measurement concept presented above. Here, the annual net changes are accumulated to better illustrate the dynamics over time. At first sight, we can observe a constant upward trend in environmental policy, which is interrupted only by years of regulatory inactivity. This finding is well in line with general assessments of the development of EU environmental policy (Knill/Liefferink 2007). It also rejects the scenario of a race-to-the-bottom or downward pressures on regulatory standards as reaction to increasing global competition (Drezner 2001). Considering the whole observation period, small-scale policy dismantling only occurred in 2001 and 2009, when EU policy-makers subsequently exempted old and small combustion plants from existing regulation.

The most significant punctuation in policy expansion can be observed in 1996. Here, the adoption of the Council Directive 96/61/EC required the Member States to guarantee the application of the most effective and advanced stages of technological development when issuing operating permits for industrial installations. Thus, this legislation laid down the foundations for the use of so-called Best Available Techniques, which have become one of the Union's key instruments in the fight against environmental pollution and climate change.

Another important aspect revealed in Figure 1 is the far greater dynamism in EU environmental policy after 1999. This can be explained by the new institutional conditions established by the Maastricht Treaty in 1992 and the Treaty of Amsterdam in 1999. Both fostered the integration of environmental policy goals as a matter of common EU legislation (Knill/Liefferink 2013). Comparing the growth patterns of the two policy subfields under scrutiny, we can assert that clean air policy devel-

oped rather incrementally whereas the regulation of water protection evolved in sequences of strong policy expansion. This difference can be explained by the various sources of air pollution like stationary sources, automobiles or aviation activities that do all require distinct treatment and thus several but less comprehensive regulatory acts.

To apprehend the interconnection between changing economic conditions on the one hand and policy responses on the other, Figure 2 depicts both the net policy changes per year and the annual growth rate of the EU gross domestic product (GDP) from 1975 to 2014. The latter refers to changes in real GDP at constant national prices encompassing all member states in consideration of member states' year of accession (Heston et al. 2012; Eurostat 2015).

A closer look at the shapes of the two curves reveals that there are no common patterns of change until the late 1990s. Yet, this image is altered just after the Treaty of Amsterdam has completed the inclusion of environmental protection in the key clauses of the European Community Treaty. Between 2000 and 2010 major policy expansions occurred almost exclusively in years of strong economic growth. In turn, EU environmental policy clearly lost its momentum in the years following the last great depression. The period from 2011 to mid-2013 presents the longest time span of regulatory inactivity since the early 1980s. All in all, it seems that economic trends do indeed determine the political ambitions in environmental policy. In this respect, times of economic hardship impinge on environmental policy by slowing down further improvements. However, an extensive rollback of established environmental standards is not observable.

But how can we explain the observed patterns? In fact, it seems that policy-makers are simply more willing to improve environmental standards and thus to burden the economy during benign economic conditions. While this reasoning may easily account for the positive effect of economic trends on environmental policy, there are several alternative explanations assessing the inverse relationship. A persistent stagnation in regulatory activities can be the result of, firstly, an agreement between the involved decision-makers to not act, as well as, secondly, the inability to reach broad consensus. In the specific institutional setting of the EU, these explanatory approaches are also linked to different actors and stages in the policy process. While the first explanation refers more to the European Commission and its near-monopoly in initiating policies, the second one applies to the later stages of the policy-making process and thus to the negotiations in and between the European Parliament and the Council of the European Union.

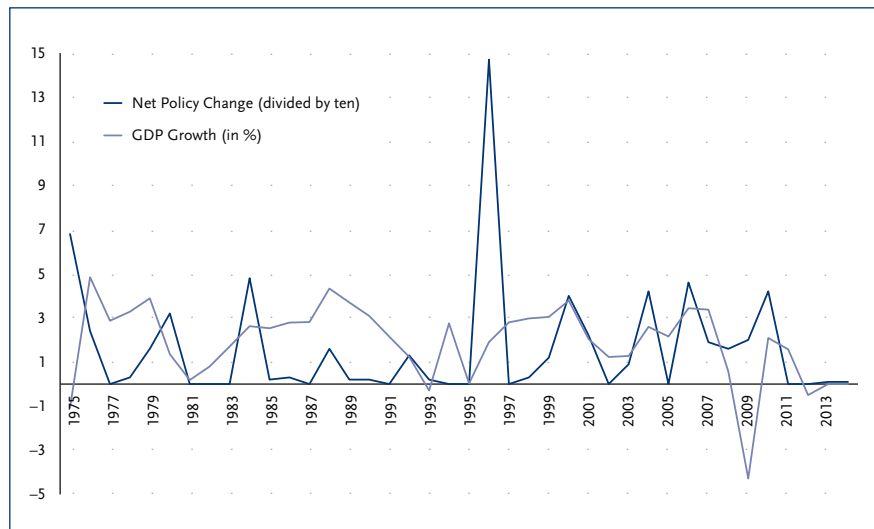


Figure 2: Net policy changes and GDP growth rates per year.

Exploring different explanatory approaches

Our interviews with European Commission representatives confirmed the notion that the Commission has generally become far more cautious regarding the negative effects of regulation on economic recovery and job creation. Thus, the economic uncertainty in Europe has altered the Commission's policy preferences to the disadvantage of environmental ambitions. This is best illustrated by the Commission's renewed commitment to make greater use of economic impact assessments at the pre-proposal stage and to withdraw policy proposals pending in the legislative procedure (European Commission 2010). In its 2015 Working Program, the Commission even announces a fitness check for central pieces of existing environmental legislation including the regulations on Ecolabel and Eco-Management and Audit Scheme regulations as well as the Natural habitats (Natura 2000) Directive (European Commission 2015).

In addition to this, our interview partners noted that general saturation effects and cycles of policy-making might also play a role. From this perspective, the sharp drop from thirty policy proposals adopted by the Commission in 2008 to only six in 2009 and ten in 2010 can be explained partially by the transition from the Barroso I to the Barroso II Commission.

With regard to the second explanatory approach, the inability of involved decision-makers to reach broad agreements, the negotiations prior to the adoption of Regulation (EU) No 333/2014 may provide some important insights. This legislation is one of the very few relevant environmental policies that made it through the entire legislative process in the post-crisis period. The initial Commission proposal merely aimed at clarifying minor modalities in order to adjust the existing regulation of CO₂ emissions from new passenger cars to the new EU 2020 targets. An emission target of 95 gram CO₂ per kilometre was already determined in the predecessor Regulation (EC) No 443/20. Yet,

one of these modalities, namely the slope of the target line, caused fierce debates and serious political tensions.

Broadly speaking, the target line defines the CO₂ targets for individual car manufacturers based on the vehicle's weight. In turn, the slope of this target line specifies the burden sharing with regard to the admissible CO₂ emission between lighter and heavier vehicles. The major issue in this connection is that the manufactures of heavy cars are concentrated in Germany, whereas the European South is home to carmakers manufacturing light vehicles such as Fiat in Italy and PSA Peugeot Citroën and Renault in France. This unequal distribution became crucial in the years following the crisis as in particular Italian and French companies suffered from economic difficulties while German luxury car manufacturers were able to compensate losses on the European market by exports outside of Europe.

The negative effects of the crisis overshadowed the whole negotiation process. German representatives already accused an early Commission draft that set less challenging targets for small and more challenging for large cars as a "gift to struggling French and Italian carmakers" (European Voice 2013a). In turn, the French and Italian Governments kept pushing for higher CO₂ emission standards at the expense of the German car industry. During the two years of negotiations, the German Government constantly tried to undermine any compromise by demanding more and more political concessions. In June 2013, Chancellor Angela Merkel even personally contacted the Irish Prime Minister Kenny during the Irish Council Presidency to undo a deal that had just been achieved between the European Parliament and the Council of the European Union. Merkel justified the German strategy by claiming that "at a moment when we sit together for days to talk about employment, we also need to be careful to not weaken our industrial base" (European Voice 2013b). According to environmental groups this strong political interference of a single member state's head of government has been "unprecedented" in the history of EU environmental policy-making (The Guardian 2013). The negotiations finally resulted in a minimum compromise in May 2014 that did reduce the permitted threshold as planned but also allowed for several derogation measures.

The negotiations on Regulation (EU) No 333/2014 reveal especially two aspects that are relevant for this study. Firstly, it shows that, even at the advanced stages of the policy process, decisions have become much more conditional on policies' expected economic impacts. Secondly, it shows that the crisis triggered more protectionist behaviour on the part of the member states. The interplay of these factors decreases the political room for manoeuvre and thus reduces the actor's ability to reach broad agreements in the area of environmental policy.

Conclusion

We proposed a new measurement concept that adopts an aggregate view on the development of environmental policy and allows for systematic cross-sectional and longitudinal com-

parison. The application of this concept enabled us to analyse the development of EU environmental policy between 1975 and 2014 and to contrast the observed patterns with macroeconomic data.

We find evidence suggesting an impact of economic trends on environment protection measures. This becomes particularly obvious after the outbreak of the crisis when the EU entered a four-year period of almost complete regulatory inactivity. By exploring different explanatory approaches, we showed that it is reasonable to assume that the most recent economic crisis impinged heavily on the policy process by, firstly, altering Commission's policy preferences to the disadvantage of environmental ambitions and by, secondly, decreasing the political leeway it needs to reach broad consensus during negotiations.

Interestingly, the observed patterns reveal a picture of environmental policy dismantling by non-decision. Rather than explicitly trying to reduce policy requirements defined in existing legislation, factual dismantling is based on the non-adjustment of the policy status quo to technological progress and new environmental problem pressures. This strategy of non-decision is generally preferred to more explicit approaches by policy-makers, given its lower political visibility and hence lower political costs to legitimize a cutting-back of regulatory standards.

It remains to be seen whether the years 2011 to 2014 just marked a temporary deviation from previous patterns or a long lasting turning point in the history of EU environmental policy. Considering the ten priorities of the Juncker Commission, it seems unlikely that we will experience a reinvigoration of environmental policy in the near future. In this context much depends on whether or not the European Parliament and Brussels's environmental organisations will manage to transcend the regulation-deregulation dichotomy by highlighting the potentials of environmental regulation for economic growth.

References

- CONSENSUS (2009): Coding Manual. Available on the internet at: www.gsi.uni-muenchen.de/lehreinheiten/lis_emp_theo/forschung/dokumente/codingmanual.pdf
- Drezner, D. W. (2001): Globalization and Policy Convergence. In: *International Studies Review* 3. pp. 53–78.
- European Commission (2006): Communication from the Commission to the Council, the European Parliament, the European Economic and Social Committee and the Committee of the Regions: A Strategic Review of Better Regulation in the European Union. Brussels.
- European Commission (2010): Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions. Smart Regulation in the European Union. Brussels.
- European Commission (2015): Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions. Commission Work Programme 2015. Brussels.
- European Voice (2013a): Commission Proposes Vehicle Emissions Limits for 2020. Available on the internet at: www.europeanvoice.com/article/commission-proposes-vehicle-emissions-limits-for-2020/

European Voice (2013b): Emissions Impossible? Available on the internet at: www.europeanvoice.com/article/emissions-impossible-2/

Eurostat (2015): Real GDP growth rate. Available on the internet at: <http://ec.europa.eu/eurostat/data/database>

Hall, P. (1993): Policy Paradigms, Social Learning and the State. In: *Comparative Politics* 25. pp. 275–296.

Heston, A./Summers, R./Aten, B. (2012): Penn World Table Version 7.1. Center for International Comparisons of Production, Income and Prices at the University of Pennsylvania.

Holzinger, K./Knill, C./Schäfer, A. (2006): Rhetoric or Reality? 'New Governance' in EU Environmental Policy. *European Law Journal* 12. pp. 403–420.

Howlett, M./Cashore, B. (2009): The Dependent Variable Problem in the Study of Policy Change: Understanding Policy Change as a Methodological Problem. In: *Journal of Comparative Policy Analysis: Research and Practice* 11. pp. 33–46.

Knill, C./Lehmkuhl, D. (2002): Private Actors and the State: Internationalization and Changing Patterns of Governance. In: *Governance: An International Journal of Policy, Administration, and Institutions* 15. pp. 41–63.

Knill, C./Schulze, K./Tosun, J. (2010): Politikwandel und seine Messung in der vergleichenden Staatstätigkeitsforschung: Konzeptionelle Probleme und mögliche Alternativen. *Politische Vierteljahresschrift* 51. pp. 409–432.

Knill, C./Schulze, K./Tosun, J. (2012): Regulatory Policy Outputs and Impacts: Exploring a Complex Relationship. *Regulation and Governance* 6. pp. 427–444.

Knill, C./Lieberink, D. (2007): Environmental Politics in the European Union: Policy-making, Implementation and Patterns of Multilevel Governance. Manchester.

Knill, C./Lieberink, D. (2013): The Establishment of EU Environmental Policy. In: Jordan, A./Adelle, C. (Eds): *Environmental Policy in the EU. Actors, Institutions and Processes*. Abingdon. pp. 13–31.

Reuters (2012): EU Commission Plans Regulatory Holiday for Auto Sector. Available on the internet at: www.reuters.com/article/2012/03/08/eu-auto-regulations-idUSL5E8E8ALJ20120308

The Guardian (2013): Angela Merkel 'Blocks' EU Plan on Limiting Emissions from New Cars. Available on the internet at: www.theguardian.com/environment/2013/jun/28/angela-merkel-eu-car-emissions

World Wide Fund for Nature (WWF) (2014): Greece Going into Deep Environmental Recession. Available on the internet at: www.wwf.eu/?228852/Greece-going-into-deep-environmental-recession

AUTHORS + CONTACT

Christoph Knill is Professor of Political Science and Public Administration at the University of Munich, where he holds the Chair on Empirical Theories of Politics.

Email: christoph.knill@gsi.uni-muenchen.de

Yves Steinebach is a Research Fellow at the Chair on Empirical Theories of Politics, University of Munich.

Email: yves.steinebach@gsi.uni-muenchen.de



GAIA Masters Student Paper Award

Have your work awarded and published in a renowned scientific journal!

The international journal GAIA – Ecological Perspectives for Science and Society and Leuphana University Lüneburg invite Masters students to participate in the 2016 GAIA Masters Student Paper Award.

Masters students are encouraged to publish their results from research-based courses/Masters theses in the field of transdisciplinary environmental and sustainability science.

Submission guidelines and more information:

www.oekom.de/zeitschriften/gaia/student-paper-award

Deadline for submission: November 2, 2015. Anticipated publication date: June 2016.

One article will be selected by a jury and published in GAIA. The winner will be granted a prize money of EUR 1,500 endowed by the Selbach Umwelt Stiftung, as well as a free one-year subscription to GAIA, including free online access.

Selbach Umwelt Stiftung

LEUPHANA
UNIVERSITY OF LÜNEBURG

GAIA