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EU Environmental Policy and Competitiveness

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Summary: Protection of the environment was not a specific importance to the Community although the Treaty of Rome expressly specified that "health, safety, environmental protection" shall be based on "a high level of protection". In deciding upon a framework for a European environmental policy, the Community was also responding to increased public awareness of the problem and concerns about the state of the natural and man-made environment. During the past years, competitiveness concerns have dominated the EU policy debate, in the course of which a growing consensus is being developed on the importance of eco-innovations and resource efficiency for EU competitiveness and on the market opportunities they offer. There is an increasing evidence that environmental policy and eco-innovations can promote economic growth, as well as maintain and create jobs, contributing both to competitiveness and employment. Environmental constraints to rapid economic growth are increasingly recognized by countries, leading to a rising awareness of the need for sustainable development. Implementation of an environmental policy, however, generates significant implications for competition among countries.

Key words: EU Environmental policy, Competitiveness, Pollution control, Sustainable development, Resource efficiency

JEL: Q56, Q58

1. Introduction

In the 1950s there was no influential generalized concern for the environment and EC policy on the environment. The Treaty of Rome made no provision for any joint EU policy on controlling pollution, let alone more general environmental conservation.

By the end of the 1960s, however, a new attitude which led to demands for new policies had become widespread, although not initially as strongly as their counterparts in the United States. Western Europe had begun to express concern over degradation of the environment.

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There were various organized groups who had an effect on EC environmental policy especially where they have a stronger crusading force to the aspects of environmental concern which had most influence on policy. Some national governments have felt obliged to be seen to be responsive to public opinion on environmental issues, in order to try to keep the "Green Party" members in the European Parliament (MEPs) from gaining enough seats to be a threat to the government majorities. These governments, initially primarily the German and Dutch, have an extra incentive to support EU environmental policies.

The change from 1957 is that pollution is seen to be a general, ongoing, problem. It is now considered that action should be introduced to control harm before blatantly dangerous situations occur.

As a result of the changes, in October 1972 the heads of government called for an EC environmental programme, which led to approval in November 1973 of the First Environmental Programme 1973-78. This has been followed by subsequent programmes.

Despite the agreement of the heads of government to an EC programme, and thus to a commitment to joint policies, for some years there was doubt as to whether there really was a legal basis for issuing directives in this area. On several issues, the UK approach to pollution control differed sharply from the majority view among the other member states. There were some who proposed a challenge to the legality of the directives.

The official basis for actions that were clearly not foreseen in the Treaty of Rome was twofold. First, in cases of few of the types of pollution which dealt with could result from the use of goods, joint EC standards could clearly be justified as part of product harmonization to prevent different national standards acting as a non-tariff barrier to inter-state trade. The second basis claimed for EC environmental policies would justify joint policies on all types of environmental concern, even where trade is unaffected.

In 1986, Articles 130R-130T were inserted into the Treaty by the SEA which are explicitly devoted to the environment. Furthermore, according to Article 100A, actions taken to further the "completion of the internal market" (El-Agraa, 2001, p. 447) are supposed to take as their base a high level of environmental protection. In addition, allowance is made for individual member states to set higher environmental standards, provided that these do not constitute barriers to trade - though the acceptable boundaries can be contentious. Conflicts did arise over whether particular directives should be treated as relating to product harmonization and thus subject to majority voting or as environmental protection and requiring unanimous agreement. The amendment of Article 130S at Maastricht and Amsterdam further extended majority voting to most aspects of environmental policy, so that in general it does not now matter which Article is used.

The SEA, Maastricht and, especially, Amsterdam treaties increased the power of the European Parliament and this can also lead to stronger EU policies on the environment and the adoption of stricter standards. The European Parliament is generally considered to be more concerned about environmental issues than the Council. One case where pressure from Parliament's amendment in April 1989 of the Council's proposal on exhaust emissions, which resulted in more stringent limits that could be met only by using catalytic converters on all cars. Given the general movement towards environmental consciousness in the preceding year, the previous opponents of stringent limits (especially the United Kingdom) were not prepared to face the odium of no action at all as a result of rejecting the Parliament's amendment.[1]

With a point of the legality according to the unamended Treaty of Rome of EC directives on issues affecting the environment, the governments of the member states wanted a joint environmental policy at all, on those aspects where individual national policies would not be a barrier to trade and where transfrontier flows of pollution were not a problem.[2] This based on two primary motivations.

First, statements by EC leaders, if there were to be public support for the European ideal, the EC should be identified in the minds of the public with issues with which they were concerned. Joint EC policies on an issue which had recently become the focus of much media discussion and campaigning would help to convince the public that the Community was relevant to them and responsive to their worries.

Second, it was clear to governments in member states that they would have to respond to public pressures over pollution and environmental preservation. Many of the measures which would be required were likely to raise production costs. If some countries were to have tighter standards than others, then their firms would face "unfair competition" from firms that had lower production costs just because they were located in countries that had laxer requirements on pollution abatement.[3] Uniform emission standards (UES) would prevent this threat to competitiveness. Hence the desire of governments for joint EC environmental policies which would affect all member states equally.

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[1] It is not always the case that Green MEPs in the European Parliament are inevitably more environmentalist than the Council. In debates on a tough new proposal for recycling cars in late 1999, it seemed very likely that the EP would relax the Council and Commission decision. This may be due to the more conservative political composition of the EP following the 1999 elections and/or the vulnerability of some MEPs to sophisticated lobbying by producers (though in the end the attempted weakening was not carried through).

[2] As already indicated, the small group which could lead to barriers could be dealt with under the procedures on product harmonization.

[3] As in other applications of this notion of "unfair competition", or "distortion of competition" as it is often called in EU documents, it contains implicit assumptions about the fixity of wages, prices and exchange rates. These assumptions are often not realized and their validity may or may not be dubious.

2. EU Environmental policy

One of the principal objectives of the countries comprising the EU is "the constant improvement of the living and working conditions of their people" (TEEC, Preamble) (Hitiris, 2003, p. 323). This objective entrusts the Community with a clear responsibility to ensure high standards of environmental quality and is the chief reason for inaugurating a Community environmental policy. Besides, there are at least two reasons more. A second reason is that differences in national environmental legislation could affect the operation of the common market by creating distortions in competition and technical barriers to trade. Therefore, countries with high environmental standards (such as Denmark and Germany) have tended to argue for harmonization at a high level, while other member states urge a more flexible form of harmonization. The third reason is that often pollution is not constrained within the borders of a country, but is an international problem that requires international solutions.

Protection of the environment was not a specific power of the Community although the Treaty of Rome expressly specified that "health, safety, environmental protection" shall be based on "a high level of protection" (TEEC). In deciding to frame a European environmental policy, the Community was also responding to increased public awareness of the problem and concern about the state of the natural and man-made environment. When by the early 1970s environmental concerns started spreading worldwide, the European Council declared in 1972 that environmental issues were on the policy agenda of the Community. The Single European Act (SEA, 1986) clarified this issue by declaring that "a policy in the sphere of the environment" (TEEC) is among the Community's tasks for establishing the common market. Consequently, under a new Title assigned to the environment, the treaty elevated action on the environment to the status of "Community policy" with the following specific objectives:

- preserving, protecting and improving the quality of the environment;
- protecting human health;
- prudent and rational utilization of natural resources;
- promoting measures at international level to deal with regional or worldwide environmental problems (TEEC) (Hitiris, 2003, p. 324).

Community policy is based on many principles, but the following are major:

- the preventive principle;
- the polluter pays principle;
- the source principle (i.e. environmental damage should be rectified at source);

- the precautionary principle (i.e. that policy will be undertaken even if the evidence on cause and effect is not scientifically established, subject to the "potential benefits and costs of action or lack of action");
- the integration principle. The Treaty on European Union clarified that the goal of the Community is "sustainable growth respecting the environment". Accordingly, subject to the subsidiarity principle, the Community's task is to coordinate the policy of the member states in the interest of avoiding competition distortions in the single market (Hitiris, 2003, p. 324).

Subsequently, the Treaty of Amsterdam enshrined sustainable development as one of the Union's integration principles, requiring all proposals by the Commission to be based on an appraisal of their environmental impact. Accordingly, after a Community harmonization measure has been adopted, member states must protect the environment by either existing or new national provisions.

The Treaty has also established a more efficient decision-making procedure for environment policy, replacing unanimity in the Council by qualified majority voting as the general rule and the Community monitors the implementation of the common environmental law. The Commission may issue infringement warnings to offending parties and, as a last resort, refer cases to the European Court of Justice (ECJ).

Hence, the first United Nations Conference on the Environment in 1972 took place and was soon followed in the same year by an agreement among the EC-6 to lay down the common principles for future Community action on the environment. This was followed by the First Environment Action Programme (EAP, 1973-7) which, along with similar programmes that succeeded it, set up the framework for Community environment policy and led to the adoption of a series of directives on the protection of natural resources (air, water), noise abatement, conservation and waste management. These programmes confirmed that the Community objective of economic growth was linked with protection of the environment and conservation of natural resources, not only within the EU but internationally by Community involvement in multilateral environmental conventions aimed at global and regional collaboration.

The Community in 1987 established in Copenhagen the European Environmental Agency (EEA) to monitor the environmental performance of EU member states and to act in the field of environmental legislation, providing the Commission and national authorities with technical, scientific and economic information necessary for adopting measures to protect the environment.

The Fifth EAP (1993-7) concentrated on "sustainable development" and dealt with the form that growth must take to safeguard the environment. The programme also provided for specific financial aid mechanisms, such as the Cohesion Fund and the financial instrument for the environment, LIFE, which

were designed to support priority measures for implementation of Community environmental policy and technical assistance to non-member countries.

Actual the Sixth EAP (2001-10) identified four priority action areas:

- climate change
- nature and biodiversity
- environment and health
- natural resources and waste (Hitiris, 2003, p. 326).

Since previous experience has proved that the problem the EU is facing is not lack of environmental policies but the implementation of these policies, the new EAP focuses on the active involvement and accountability of all sections of society, including the polluters and the polluted.

The EU member states had adopted their own national measures to protect the environment even before the action programmes. However, different preferences, assimilative capacity, levels of pollution, patterns of ownership and utilization of natural resources meant that the degree of environmental protection differed significantly between countries. Even under the Common environmental policy the member states will differ in the action they take and in the outcome they achieve. The diverging levels of pollution and attitudes to anti-pollution policy have meant that the Community environmental policy is the result of a compromise based on the lowest common denominator. Member states that expect higher levels of environmental protection, and can afford it, are free to apply it.

In recent years Community environmental policy (more about EU Environmental policy see in: Vasić, 2004) has grown significantly so that the EU is currently playing an important role in the global fight for pollution control. The Community policy deals with all sources of environmental deterioration, such as waste management; noise; air and water pollution; discharges; nature and biodiversity; industrial risks; and civic protection from technological hazards.

The Community law and policies concerning the environment are included among the criteria for membership, which the applicant countries of central and eastern Europe have to meet in order to avoid an "environmental gap" between them and the EU member states. The applicant countries have to transpose all existing Community environmental law into their national legislation and to integrate the environmental dimension into all their policies.

Generally, since environmental issues became very important, EU must answer by efficient measures of common environmental policy. Because competitiveness is major reason for the common environmental policy, in the following will be examine some aspects of the common environmental and competition policy.

3. Relationship between Environmental policy and competitiveness

3.1. Modernisation of EU Competition policy

Competition policy is part of public policy, ostensibly it identifies the EU's commitment to fair competition to protect consumers against a distorted market price due to, for example the disproportionate power of multinational enterprises (MNEs). A competitive environment is of EU-wide benefit as it contributes to economic growth through increased efficiency, hence increased productivity. A public policy on competition is, however, not simply a question of applying economics, as Massel states "the formulation of public policies bearing on competition is strongly influenced by public goals and current government activities" (Smith-Hillman and Vindelyn, 2006, p. 34).

It is necessary to consider the governance process initiated by the European Commission in the modernisation of European Community (EC) competition policy. Council Regulation in 2003 re-defines the powers of national competition authorities (NCAs) and the Commission. In particular EC policy re-shaping focused on the Treaty of Rome (1957) that prohibits the use of anti-competitive agreements and the abuse of a dominant position, respectively. These two forms of anti-competitive behaviour are central to the pursuit of a fair competitive environment. The monetary equivalent of the UK welfare loss due to unfair competition (anti-competitive behaviour) is estimated to lie between £4.5 and 9.0 billion (Smith-Hillman and Vindelyn, 2006, p. 34).

The competitive spectrum can be classified into two broad groups, perfect competition (idealised benchmark) and imperfect competition. Competitive markets are actively encouraged because they facilitate economic growth through improved efficiency, and increase the prospect for higher average standards of living. The goal of public policy is not the attainment of perfect competition but a competitive norm, "but it is difficult to state a priori how much competition is needed to achieve desirable economic performance, nor can we formulate hard and fast rules for identifying cases in which a departure from competition is desirable" (Smith-Hillman and Vindelyn, 2006, p. 35).

Imperfect markets occur following the absence of one or more of the underpinning assumptions. Producers stand to benefit through increased producer surplus at the expense of lower consumer surplus. Market failure results as the price mechanism, the co-ordination mechanism, fails to accurately reflect demand and supply conditions. This is due to chiefly five factors: monopoly power, a few sellers are able to wield significant price influence unrelated to cost conditions; asymmetric (incomplete) information regarding, for example, price, quality, the range of availability; unassigned property rights; externalities[4] and the provision of public goods.[5]

[4] For this paper are important ecological external effects.

Regulation is the arbitrator attempting to deliver a competitive outcome under conditions that deviate from the competitive ideal. Regulation via competition policy imposes a penalty on firms that abuse their dominant position, i.e. on firms which make ecological externality to others and penalty need to be difference between social and private costs of their production.

Competition policy is part of wider EC public policy undertaken in the interest of its citizens to maximise welfare. With this mandate in place it aims to achieve economic efficiency by encouraging conditions, which foster the growth of competitive markets.

Hence, public policy was envisaged as the vehicle though which to further the primary integration objective. EC competition policy is distinct from other non-EU competition policies given the additional explicit political intention of fostering (EU) integration in addition to the pursuit of fair competition.

Table 1 compares the objectives of competition policies in Japan and the US in relation to the EU. All three countries/regions indicate the promotion of competition as a primary objective, and with the exception of the EU, the sole objective. The inclusion of European cohesion as a further, social and political, objective has direct bearing on policy administration and enforcement. The Commission has generally viewed co-operation agreements that fostered integration between member states favourably, even if they verged on the anti-competitive and threatened the viability of small undertakings.

Table 1. Objective and originating year of competition policy

Country/region	**Year**	**Objective**
European Union	1962	Promotion of EU integration[6]; promotion of competition within EU
United States	1890	Promotion of competition for the protection of consumer welfare
Japan	1947	Promotion of competition for the protection of economic welfare

Source: Smith-Hillman and Vindelyn, 2006, p. 36

1.1.1. Pre-modernisation EC Competition policy

The development of policy within the EU was contextually different from that of its member nation-states and other non-European nation-states of comparative economic power such as the US and Japan. The EU gains its legitimacy through

[5] In the literature can find different classification of so-called market failure or lack of market mechanism, but quoted is by: Griffiths, A. and Wall, S., Applied Economics, Pearson Education Ltd, Harlow, 2001, pp. 181

[6] Unique to the EU.

the European Parliament, which represents the voice of the people, members are directly elected by EU citizens; the Council, its legislative arm representing the voice of the member states; the Commission, the executive arm overseeing the administration and enforcement of EU policy.

Cognizant of divergent legal, socio-economic and political stances of its members ensured fairly tight control centrally from Brussels, by the directorate-general for competition (DGCOMP). Four groups of directorates were established to oversee the administration and enforcement of competition law. Directorate A covered policy; Directorate B the merger task force; Directorate C-F dealt with antitrust and Directorate G-H dealt with state aid (more about institutions, goals, and tasks of EU competition policy see in: Stojanović, 2003a and 2003b). The directorates were, therefore, inclined to develop discipline-focussed expertise as against sectoral expertise. The emphasise appears to have been on developing appropriate legal procedures in keeping with the enforcement of competition legislation as it related to mergers, state aid and antitrust. In this context, therefore, an understanding of sectoral nuances became a residual by-product of the process.

1.1.2. Post-modernisation EC Competition policy

The adoption of Council Regulation (EC) No. 1/2003 on 1 May 2004, heralds the beginning of a new era with respect to the enforcement, administration and application of EC competition legislation. Widely held acceptance of the importance of competition policy, as evidenced through the existence of competition policies within member-states, was not a feature of the community. The micro-level supervisory role had to be rethought to reflect significant growth in numbers coupled with impending enlargement. Stretched community resources dictated the need for new, more efficient systems that did not compromise the central integration tenet.

Modernisation delivers decentralisation that gives member states greater involvement in policy decision-making. Member states will no longer be required to forward applications for exemption to Brussels. As a consequence designated NCAs (National Competition Authority) and/or courts will now handle more cases. The Commission will only deal with those cases that have wider EU trade implications and/or raise novel issues. The administration of EC competition law is anticipated to become much more fluid and less fraught as bureaucracy is redirected at more significant cartel cases that involve multiple jurisdictions. However, recognizing the need for consistency, entrenched in the new legislation is the establishment of European competition networks (ECNs). This provides the vehicle for the dissemination of information and consultation amongst all parties involved in the application of EC legislation. However, the supremacy of EC competition legislation, however, indicated the parallel treatment of national competition law and EC law.

Council extends the enforcement powers of the Commission to the ability to impose structural remedies. Additionally, the EC has extended its powers to access information to include the right to search private dwellings, but only with judicial approval. They will also have powers to seal premises in order to safeguard the evidence and prevent tampering.

Administrative changes have brought structural reorganisation within DGCOMP, specifically through the appointment of a chief economist to liase directly with the director-general. Additionally, the discipline-focussed approach to competition policy is to be replaced by a sector-specific focus. Prior to modernisation deputy director generals were charged with having "special responsibility" for mergers, antitrust and state aid. The growth in member-states dictates a change in focus to the development of sector specific expertise which then informs decisions regarding mergers, antitrust and state aid.

Principle of competitiveness is also in basis of the environmental policy. Though environmental problems are very important and require fast and efficient measures of environmental policy, competitiveness can be obstacle for determine and enforcement of some measures of pollution policy.

3.2. Competitiveness and pollution policy

One of the major part of the environmental policy is pollution control. Control of pollution is realizes by regulations or taxes. The idea of controlling pollution by taxation rather than by quantitative regulations imposed on firms also seems to fit economists' predilection for relying on price rather than quantitative controls.

In the early 1990s it became popular to argue that there is "double dividend" advantage of taxes to control pollution. The first "dividend" is the benefit from the reduction in the benefit from the reduction in pollution that is induced by the tax. The second "dividend" is that the revenue from the pollution taxes can be used to reduce other taxes in the economy that are themselves distortionary from a welfare economics viewpoint, e.g. income taxes (distorting labour demand choices) (El-Agraa, 2001, p. 453).

Despite cost-minimization argument, until recently pollution taxes have hardly been used in most EU countries, and although their use has been increasing, they are still relatively rare (Sweden and Denmark are the EU countries with most use). Among the minor exceptions is the reduced tax in some countries on lead-free petrol as compared with leaded petrol, during the period when both were available. However, in the year preceding the final Council agreement of 1989, the Commission - at the urging of the French and UK governments - had been threatening to take the Dutch to the ECJ for offering tax concessions to purchasers of cars fitted with catalytic converters which reduce exhaust pollution. This was said to be a distortion of trade - the British and French car makers not having moved as fast as the Germans and some others in adapting their production towards cars which can be easily fitted with converters.

However, the EU itself has tried taking pollution taxes more seriously. The Council of Environmental Ministers in 1989 requested the Commission to draft proposals on environmental taxation. Specific proposals by the Commission emerged with the debate on global warming, and the need to reduce emissions of carbon dioxide.

In 1991 the Commission proposed an energy tax in two parts: one part related to the carbon content of fossil fuels and the other part on all non-renewable energy. The proposal also allowed for possible exemptions for some industries which are particularly energy intensive, such as steel, in order to preserve international competitiveness - such exemptions could be removed if other competitor countries agreed to tax such industries in a similar way (El-Agraa, 2001, p. 456).

The proposals aroused considerable opposition, especially from fuel producers and many industrial groups. The result was that the Commission effectively agreed to make implementation contingent on the acceptance of carbon taxes in the major competitors, especially Japan and the United States. At the Earth Summit in Rio de Janeiro in June 1992, US opposition ensured that no binding international agreement was reached on controlling carbon dioxide emissions because the US government still claimed that lack of evidence on carbon dioxide emissions and global warming meant that the costs of controlling the emission were unjustified. As a result, the Commission did not push its energy tax proposal with much urgency, and the Council could not come to an agreement on the tax. In the UK has been a major controversy with industry lobbying hard against government proposals to introduce a tax on the industrial use of energy to induce abatement of carbon dioxide emissions. Currently, EU directives merely encourage member states to use environmental taxes.

One is the justification for the non-carbon part of the energy tax. The Commission mentioned encouragement of energy efficiency. This is only justifiable if there are other externalities which are due to the use of energy, which are not fuel specific and which cannot be taxed directly; but the case has not been made. It is probable that the aim was really to avoid substitution by nuclear power, because of its own risks but that it was considered politically more acceptable to achieve this as part of a new tax ostensibly aimed at global warming.

Another issue raised by the EU energy tax proposals is that of international competitiveness and distortion of trade, as exemplified both by the initial exemptions on energy-intensive industries and by the reluctance to impose carbon-content taxes unless competitor nations do the same. From an economic efficiency perspective, it is precisely the most energy-intensive industries that should either be induced to substitute other inputs for energy usage or else raise their prices and cut back production the most, as they are the heavy users of a resource with what is now considered to be a high social cost. Hence, if we concentrate on the cost-minimization argument only, and ignore overall

optimality, imposing the pollution tax but giving lump-sum subsidies to these industries (to avoid a large rise in their average costs) might be acceptable.

Since the benefits of any reduction in carbon dioxide emissions in the EU would accrue globally, it is reasonable to argue that the EU should not abate at all unless other countries do the same. It is a classic free-rider problem, since the pollution is a public bad at the global level. However, if other countries were to agree to cut back their emissions, but decide to do so by means other than economic incentives, this should not affect the EU's decision on using taxes. For any cutback that the EU wishes to achieve, it will be better off if it achieves that cutback at the minimum cost. As always in arguments over international trade, there is a conflict between the employment impacts of changes that alter the pattern of production, and the efficient allocation once employment has adjusted to the new pattern.

Importance of the issue of competitiveness needs joint EU policy at all. Major reason was because otherwise some member states might suffer a loss of competitiveness vis-à-vis other member states with laxer controls on pollution. This was, and is, considered to be unfair, or distorted, competition.

Although the avoidance of "unfair" competition and subsequent loss of sales and employment has always been a fundamental principle of the EU (Treaty of Rome), standard economic analysis generally implies that this principle may be unnecessary. In the case of imposing uniformity of environmental standards, it may even reduce social welfare in the long run.

Different countries may well want different levels of environmental purity and exposure to pollutants. These choices could result from differences in culture, preferences or income levels.

Living standards fully defined will comprise both goods and services bought by individuals and also those provided publicly but not paid for by individual consumers. The latter include environmental quality. At any given level of national productivity and resources, if more publicly provided goods are consumed then less privately purchased ones can be consumed, and vice versa. Conventional measures of net real wages and real personal incomes only account for privately purchased consumption possibilities. Thus if a country wishes to have a higher standard of environmental quality, the level of real wages will have to be below that possible with lower environmental standards.

If one country raises its environmental standards, one path that could lead to the fall in real wages is that, at existing initial levels of real wages, but with higher costs of meeting the more stringent pollution controls, firms will try to raise prices and thus become uncompetitive. Firms may also have to accept lower profits. Whether or not this happens depends on how internationally mobile capital is. In the EU, it may well be that profit rates cannot be forced down. As unemployment begins to rise, wage reductions will be needed to restore full employment. Wage cuts will enable firms to cut prices and to compete again. The final equilibrium will be one of full employment and

capacity output. Although there will be lower incomes than initially when defined in terms of privately purchased goods, there should be higher living standards when these are viewed as including enjoyment of environmental amenities and reduced pollution.

In the process that has been indicated here, the interim period of "unfair competition" is part of the market mechanism leading to the correct result. The problem is that if wages in EU countries are rigid downwards even in the face of protracted high unemployment, the unemployment may last a long time, together with it attendant social and economic troubles. Hence the pressure for common EU emission standards.

4. Conclusion

With a point of the legality according to the unamended Treaty of Rome of EC directives on issues affecting the environment, the governments of the member states wanted a joint environmental policy at all, on those aspects where individual national policies would not be a barrier to trade and where transfrontier flows of pollution were not a problem.

The EU has recognized that integration and development cannot be based on the depletion of natural resources and the deterioration of the environment. Therefore, the Community is attempting to develop a sustainable energy policy, taking full account of the environmental impact of energy production, transmission and consumption. In the field of environmental policy the Community has developed a strategy based on the basic principles of sustainable development:

- integration of environmental policy in other Community policies,
- the polluter pays,
- taking precautionary measures before there is a problem,
- benefit/cost analysis of action or lack of action,
- harmonization, monitoring of compliance, and the punishment of offenders.

Although the Community has achieved quite a lot in the environment, much remains that requires action by both individual member states and the Community at large. The EU member states had adopted their own national measures to protect the environment even before the action programmes. However, different preferences, assimilative capacity, levels of pollution, patterns of ownership and utilization of natural resources meant that the degree of environmental protection differed significantly between countries. Even under the Common environmental policy the member states will differ in the action they take and in the outcome they achieve. The diverging levels of pollution and attitudes to anti-pollution policy have meant that the Community environmental policy is the result of a compromise based on the lowest common denominator.

Member states that expect higher levels of environmental protection, and can afford it, are free to apply it.

The Community law and policies concerning the environment are included among the criteria for membership which the applicant countries of central and eastern Europe have to meet in order to avoid an "environmental gap" between them and the EU member states. The applicant countries have to transpose all existing Community environmental law into their national legislation and to integrate the environmental dimension into all their policies.

Despite the fact that it may not be clear that common policies are required at all in many cases, nevertheless a set of policies has emerged. Furthermore, despite some of the problems and despite the failure to move quickly on some other policies because of the conflicting interests of the member states, progress has been fairly steady. As indicated, the problems arise because the short run during which wages would be too high, and thus unemployment also be too high, might last a long time. The long-run result of differing national environmental standards would eventually be higher social welfare, but it may take too long to be waited for passively.

In the 1990s there has been a revival of public interest in the environment. Those in favour of stronger environmental policies may well feel divided about EU actions. Those who live in those member states where Green pressures are strong will feel that they are held back, as compared with what their governments could achieve without the requirement to carry other member countries with them.

In the second half of 1992, during the British presidency, it seemed as though EC environmental policy might be put into reverse. Following the problems in summer 1992 with ratification of the Maastricht Agreements, especially the UK stressed the notion of subsidiarity that had been incorporated into the proposed Treaty amendments. To various extents, the other member states, and even the chastened Commission, also said that subsidiarity should be taken seriously, and that EC policies should be scrutinized to see whether joint action was really necessary. The justification of EU level environmental policies is often debatable. It was possible, therefore, that the movement on subsidiarity might lead to the reconsideration of some existing EU environmental directives.

However, subsidiarity has not made a major difference as far as existing policies are concerned. It is difficult to judge whether new EU level joint actions on the environment have been as readily adopted as previously, even where there is no strong reason for an EU, rather than a national, policy. However, misguided it may be from an economist's viewpoint, the standard interpretation of distorted competition has always been a prime reason for EU level environmental policy.

Importance of the issue of competitiveness needs joint EU policy at all. Major reason was because otherwise some member states might suffer a loss of

competitiveness vis-à-vis other member states with laxer controls on pollution. This was, and is, considered to be unfair, or distorted, competition.

Although the avoidance of "unfair" competition and subsequent loss of sales and employment has always been a fundamental principle of the EU (Treaty of Rome), standard economic analysis generally implies that this principle may be unnecessary. In the case of imposing uniformity of environmental standards, it may even reduce social welfare in the long run.

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Ekološka politika Evropske unije i konkurentnost

Rezime: Zaštita životne sredine nije bila od posebnog značaja za Zajednicu iako je Rimskim ugovorom određeno da "zdravlje, bezbednost i zaštita životne sredine" treba da budu bazirani na "visokom nivou zaštite". Prilikom odlučivanja o okviru Evropske ekološke politike, Zajednica je takođe reagovala na povećanje javne svesti u vezi stanja prirodnih i drugih resursa životne sredine. Tokom proteklih godina u okviru politike EU dominantan je interes za konkurentnost, tako da raste konsenzus o značaju koji ekološke inovacije i efikasnost resursa imaju za konkurentnost EU i otvaranje mogućnosti na tržištu. Sve je veći broj zaključaka da ekološka politika i eko-inovacije mogu da unaprede privredni rast i održavanje i povećanje zaposlenosti, doprinoseći istovremeno i konkurentnosti i zaposlenosti. Zemlje su sve više svesne ekoloških ograničenja brzog privrednog rasta što vodi rastu svesti o potrebi održivog razvoja. Međutim, primena ekološke politike ima značajne implikacije na konkurenciju između zemalja.

Ključne reči: Ekološka politika EU, Konkurentnost, Kontrola zagađenja, Održiv razvoj, Efikasnost resursa

JEL: Q56, Q58