European Union, Sustainable Development and the Transformative Power of Business

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Special thanks to Nikitas Konstantinidis as academic tutor of the project

Abstract

Throughout this report, we want to understand what is the impact of European regulation on the private sector, as well as what is the effect outside the EU. This project will be divided into three different sections. Firstly, the sustainable regulation of the EU will be examined, highlighting its social, political and environmental implications. Secondly, the impact of the European regulation through companies and households of the EU will be analyzed, with a focus on the amplifier effect of companies as well as on the risks involved in the EU Sustainable Transition. Finally, the third part will contain some conclusions and recommendations.

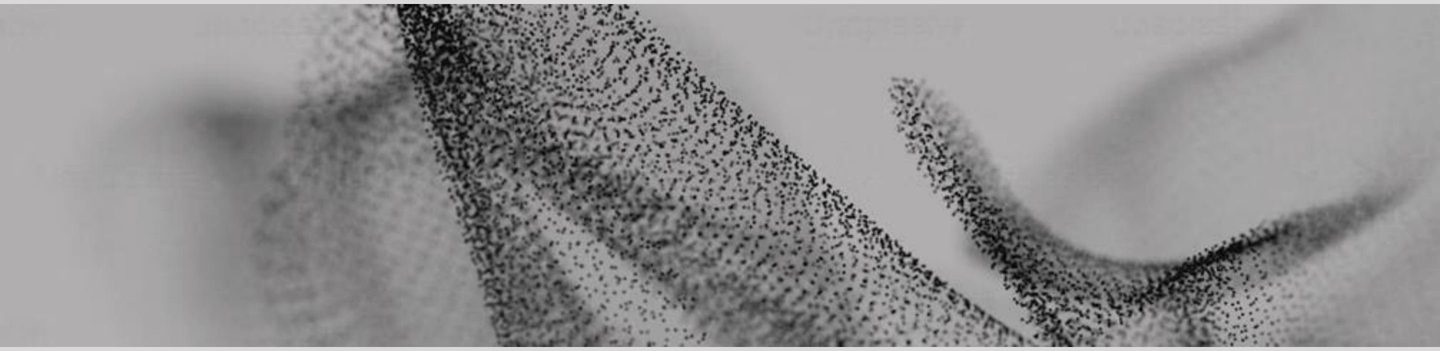
The views and opinions expressed in this program are those of the speakers and do not necessarily reflect the views or positions of KREAB Worldwide and IE School of Politics, Economics and Global Affairs.

For consideration

This report was constructed in partnership with KREAB España and IE School of Politics, Economics and Global Affairs in partial fulfilment of the requirements for the Degree of Master of Science in International Relations. The report was finalised in July 2022 and is based on examples and events that were considered recent at the time of the its formulation. However, the authors are aware much has changed in the world in regards to sustainability, specially considering the impact of the invasion of Ukraine. The recommendations outlined at the end of this report are still relevant and pertinent to integrate sustainability in Europe and the rest of the world, and to shift the balance towards prosperous scenarios.

Acknowledgement

We would like to thank Nikitas Konstantidis, Executive Director of IE's School of Politics, Economics and Global Affairs, for his invaluable contributions as the project's academic tutor. We would like to thank Patricia Gabaldón, Verónica García, Gloria Gubianas, Alejandro Manso, Alberto Muelas, Blanca Pérez, Aida Rodríguez, Fernando Rodríguez-Mata, Alessio Terzi and Mónica Zaldumbide for giving us the chance to interview them and for their contributions as experts in the field.



Alberto Muelas
Director of Sustainable Business

I am pleased to introduce the work of four talented students from the Master in International Relations at IE School of Politics, Economics and Global Affairs.

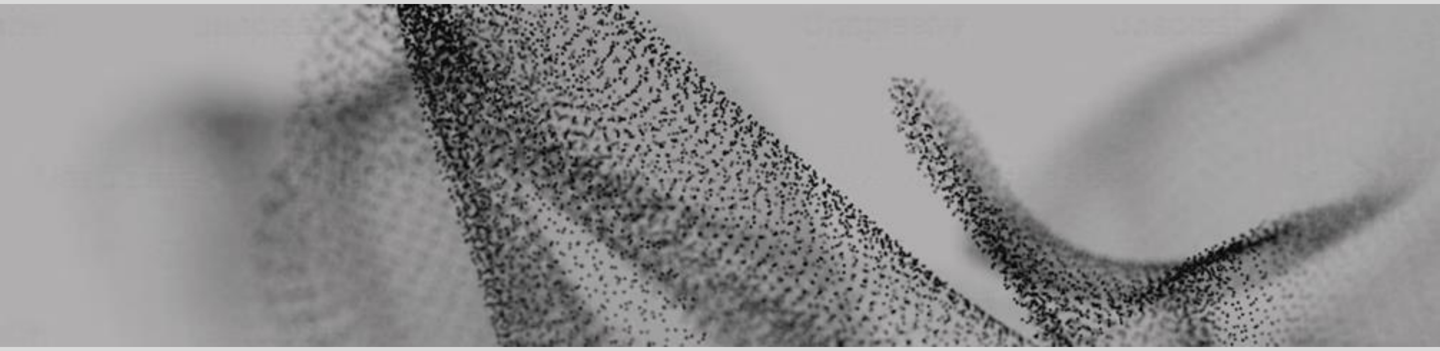
For much of the last 100 years, during which the modern concept of sustainable development has unfolded, corporate sustainability has been seen as a voluntary practice of companies, linked to their ethical and moral responsibility, but not a legal one. Beyond specific regulation in areas such as, for example, labor rights or the use of chemicals that could threaten health, sustainability has been a largely unregulated area.

However, something has changed since the 2010s. Both the UN at the global level –SDGs, Paris Agreement- and the EU at the regional level -CSR Strategy, Non-Financial Reporting Directive- began to recognize the role of business in achieving the goals of the sustainable agenda and to establish legal obligations.

In a context in which the private sector is increasingly concentrating income and wealth and in which Europe is losing economic and demographic weight on the global stage, paradoxically the EU seems to be able to lead the global regulatory agenda on sustainability.

Faced with this new reality, this paper opens up necessary reflections on the influence of European sustainability regulation on a global scale, such as: Is there a broad consensus on the meaning of the concept of sustainable development or is it strongly biased by the geostrategic priorities of those leading the debate? Is it possible to achieve sustainable development goals without a true global consensus? Do we measure development adequately? Is regulation sufficient to promote sustainable change in society or should other types of transformations in markets and people's behavior be sought? What mechanisms can be more effective in promoting change in companies: prohibitions, taxes or subsidies? Should regulation serve to correct the problem of markets or should it be aligned with their interests to be effective? Is it possible to promote the long-term sustainability of companies without affecting their international competitiveness in the short term?

I am confident that this report will be a valuable resource for policymakers, businesses, and academics alike, as it provides a comprehensive analysis of the impact of European regulation on the private sector. I commend the authors for their dedication and hard work in producing this insightful report and I am pleased to present it to you.



Francisco Ortín
Associate Director of Sustainable Business

This report provides an in-depth analysis of the impact of European regulation on the private sector and its implications on sustainable development. To achieve this, the authors have employed a rigorous methodology consisting of interviews with specialists from both the public and private sectors, scenario analyses, and qualitative analyses.

The report stresses the importance of strengthening public-private partnerships to overcome complex challenges, as both governments and companies play essential roles in the sustainable transition.

Another key issue identified by the authors is the transition to a system in which the most rational behaviour is sustainable. Through new rules and incentives, it is possible to design a system in which decisions are automatically directed towards sustainable choices. In my view, this step is essential to integrate sustainability into all aspects of society and the economy.

Furthermore, the authors emphasize other important aspects such as the carbon tunnel vision bias seen in the environmental dimension, the importance of enhancing the social dimension on sustainable policies, the crucial role of education in promoting a sustainable transition and the coordination of the interactions between EU and national stakeholders. In that sense, investing in innovation and research and development is also seen as an essential tool for making the sustainable transition feasible in energy, social, and economic terms.

Sustainable development is only possible when it is environmentally and socially balanced and when the focus is on maximising social welfare rather than other secondary goals. Therefore, another highlight of the report is the call for the institutions to redefine economic development, which has traditionally been measured by indicators such as GDP and has systematically ignored sustainability.

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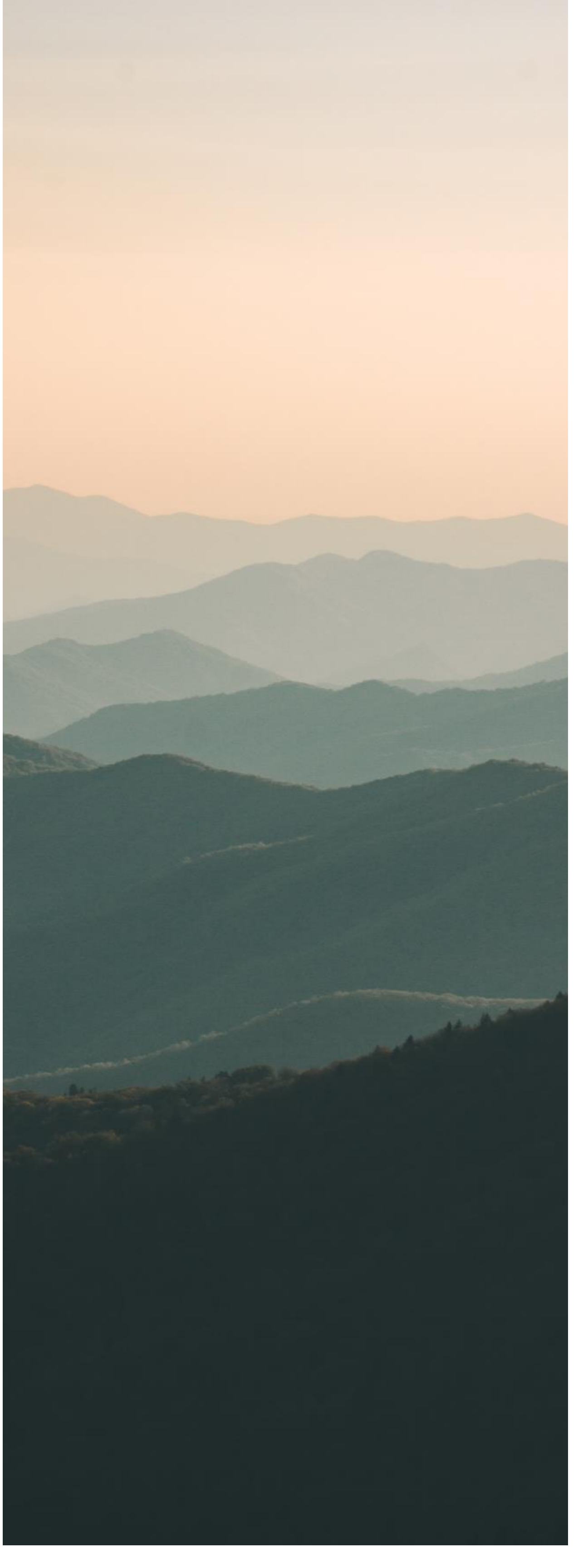


Chapter 0: **Context**

The European Union (EU) has a significant capacity and a "highly penetrating power" to transform global markets through the ability to set standards in very specific competition policies.

The regulatory capacity of the EU has an historical track record. The regulation evolved after World War II, legitimised by the need of control of the economy while maintaining social justice and greater equality in the distribution of resources by governments. The role of the European Commission as a regulatory body has evolved throughout the 20th century. Between 1967 and 1987, the "Single European Act" (SEA) recognized the Community's competence to legislate in the environmental area and thus the European environmental regulation includes over 200 pieces of legislation.

The development of harmonised regulation is essential to build a single market, to pursue consumer and environmental protection, and advance in the unification of a single market ensuring free movement of goods and services. The regulatory capacity and content of the regulations issued by the EU over the years has evolved, from the first directives, which focused mainly on product regulation (motivated by the need of common standards in a free-trade market), to a regulation that focuses on processes and products not subjected to tariffs.

The EU's environmental legislation targets different objectives that involve, among others, the emission and ambient quality standards, the regulation of waste disposal and of land use, or environmental impact assessments. The scope of European regulations restricts the freedom of action of member states in specific areas, and to implement them and forward the European integration, they have to develop new regulatory capacities. In the field of European integration and of "regulatory policy-making", rules are generally created at supranational level, rather than by differentiating regulations between member states.

Since the 1990's, EU institutions have adopted common standards to protect the environment, foster competition, and safeguard the integrity of personal data. This has led to the "Brussels Effect" phenomenon, that refers to the "unilateral power of the EU to regulate global markets". It has the capacity to promulgate regulations that shape the global business environment, leading to a "Europeanization" of important aspects of global commerce. It strengthens the interests of the European Commission, constantly looking to expand its influence over policy making, as it enhances the impact of the regulatory activities.

Global standards are set by the EU centered on market forces as companies will extend worldwide the EU rule. Actually, the EU has become the "predominant regulator of global commerce", in distinction to the United States or China. The "Brussels Effect" leads to "unilateral regulatory globalization" in the global marketplace. It is encouraged by strong regulatory institutions present in the EU that require foreign companies to adapt to its standards to access European markets.

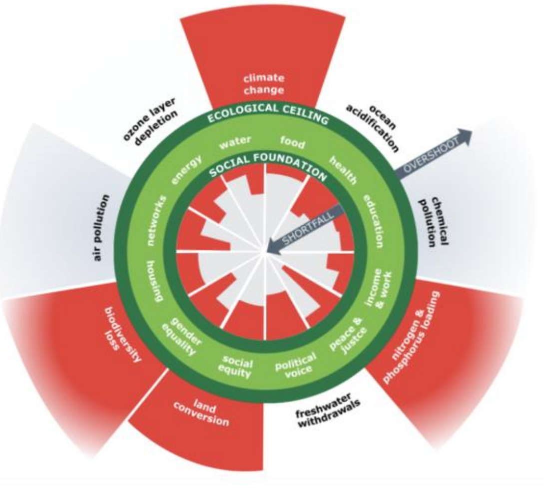
It is key to highlight that the EU mainly regulates inelastic consumer markets, which prevents capital markets to flee when faced with a pressuring regulatory environment. Global powers such as the U.S., concede the regulatory power to the EU by not setting regulatory standards and "relegating the regulation of key areas" to the market forces.

To achieve a sustainable regulatory framework, the EU faces multiple obstacles. To meet this challenge, different legislative initiatives have been launched, aimed at achieving more sustainable and socially equitable economic development. Popular conceptions of sustainability include different terms, assumptions and perceptions, which result in different notions depending on elements such as the location or the nature of the issuing institution.

As stated by Timmermans and Katainen, sustainable development is deeply rooted in the European project. The EU has positioned itself as a leader in the "Agenda 2030", and the EU is considered one of the best places in the world to live. The EU defines sustainable development as "meeting the needs of the present whilst ensuring future generations can meet their own needs", highlighting its economic, social and environmental pillars. Nonetheless, and despite the European alignment with the UN criteria, this concept is not necessarily shared by all agents of the international community.

It is essential to create a space for humanity within a framework of policies, in what Raworth describes "the dynamics of the Doughnut", that promotes poverty eradication and environmental sustainability (by reducing the use of global resources) without putting natural resources under stress and creates a safe and just space for humanity to thrive in.

This concept has its origin in the graphic representation of a doughnut were the social foundation and environmental ceiling are separated by an area, shaped like a doughnut, that represents the "environmental safe and socially just space for humanity" where "inclusive and economic development takes place".



Source: Kate Raworth (2022): "Exploring Doughnut Economics", available online: https://www.kateraworth.com/doughnut/ [Accessed 28 June 2022]

To achieve sustainable development implies to ensure all people access resources such as food, water, healthcare, and energy to fulfill their most basic needs. According to the OECD's definition, sustainability also means to ensure that the use of natural resources "does not stress the Earth system processes that cause climate change or a biodiversity loss and not compromise the future generations' wellbeing".

The commitment of a certain part of the international community began to materialize decades ago. The "1992 Rio Summit" represented the first steps to international commitment with the establishment of the "Agenda 21", in which countries coordinated to design a first strategy to sustainable development.

In 2002, the "World Summit on Sustainable Development" established governmental commitments and their expansion into business, local government, and civil society. In 2012, the "UN High-level Political Forum on Sustainable Development" was established and nowadays serves as the central UN platform for the follow-up and review of the "Sustainable Development Goals" (SDGs).

The "Agenda 2030" consists of the establishment of 17 goals to be accomplished over time. Furthermore, there is a ranking in which the overall score can be seen to measure a country's overall progress toward achieving the SDGs.

Among these are the enhancement of quality of life and access to basic resources through poverty and hunger reduction, inequity reduction, improved access to clean water, and access to clean energy. In addition, the objectives established include the sustainable economic development of cities and communities, as well as the implementation of responsible production and communication. These goals focus on the pursuit of peace, justice, and the strengthening of institutions as well the partnerships between actors to achieve them.

When analyzing all these challenges and initiatives as well as the "Brussels Effect", it will be important to relate to the spillover effect ranked in the SDG index, where the impact of each country's actions are measured along three different dimensions: environmental & social impacts embodied into trade, economy & finance, and security.

Finally, the recent events regarding the invasion of Ukraine by Russia can lead to a change in the regulatory perspectives and initiatives. Particularly, it has led to an acceleration of the development of the regulation involving energy transformation, which might have both positive and negative side effects for the European 'green' transition.

Thereupon, throughout this report, we want to understand what is the impact of European regulation on the private sector, as well as what is the effect outside the EU. This project will be divided into three different sections:

- Firstly, the sustainable regulation of the EU will be examined, highlighting its social, political and environmental implications.
- Secondly, the impact of the European regulation through companies and households of the EU will be analyzed, with a focus on the amplifier effect of companies as well as on the risks involved in the EU Sustainable Transition.
- Finally, the third part will contain some conclusions and recommendations.

Methodology

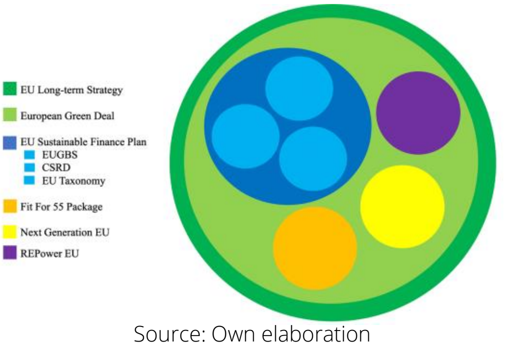
In terms of the methodology applied, different interviews have been conducted to specialists in the public and private sector. Moreover, scenario analyses have been done, to understand the role of the EU in the international scene and the future prospects of the Union in terms of sustainable development. Finally, qualitative analyses have been used to complement the former.

Chapter 1:
Sustainable Regulation in the European Union

In the “2021 State of the Union'', Ursula Von der Leyen invoked the words of Robert Schuman, considered one of the EU founding fathers: “Europe needs a soul, an ideal and the political will to achieve it”. Through that speech, the President of the European Commission highlighted the strong spirit of Europe and the forcefulness of its actions. The EU has chosen to stand united to confront climate change; thus, taking responsibility. The EU is the first major economy to present a comprehensive legislative package for sustainable development, including measures to put a price on pollution, to clean up the energy used, as well as to invest in smarter and greener transport means. As such, the Union is designing not only a green but a just transition, matching both climate and social ambitions. Moreover, it is calling on international cooperation in the field, acknowledging that the actions of Europe alone are simply not enough for a global phenomenon such as climate change. The EU is expecting the United States and other partners to follow the same roadmap to close the existing climate finance gap and, consequently, clearly demonstrate their ability as global climate leaders.

In this line, this chapter examines the sustainability policies in place in the EU. To do so, first, an analysis of the main regulations in the Union will be conducted, focusing on their timeline, purpose, as well as the method proposed by each of them to comply with their mission. The selected regulations are the “European Green Deal”, the “EU Sustainable Finance Plan” (including the “EU Green Bonds Standards”, the “EU Taxonomy” and the “Corporate Sustainability Reporting Directive”), the “NextGenerationEU Funds”, and the “Fit For 55 Package” - all inside the ‘umbrella’ of the “EU Long-term Strategy” of sustainable development towards a climate-neutral continent by 2050.

Plus, some space will be given to “REPower EU” , since it represents the most immediate EU response to the Russian invasion of Ukraine, fostering a faster sustainable transition with an emphasis on energy. The EU’s current situation clearly shows its dependence on Russian gas and oil, the reason why shifting towards alternative green energy sources such as renewables or hydrogen is more urgent than ever.



Source: Own elaboration

All regulations have clear implications for the EU’s sustainable development. Several consequences will be identified both in the short and long run. While in the long term the sustainable transition might lead to greater global influence, more energy autonomy, and deeper collaboration between public and private agents, in the short term, there are elevated risks of suffering social and economic losses if the proper incentives and support are not offered by European and national public institutions.

To end with, a quantitative comparative analysis will be conducted to assess the effectiveness of these measures. Thus, the European progress in the field of sustainability and SDGs’ implementation will be evaluated and compared with other regions worldwide. The EU will appear as a potential future leader, with ambitious regulations and policies in the long term, but currently in line with other regions of the world, such as South America and China.

EU Sustainable Regulation

Instrument	Year of Approval	Year of Target	Purpose	Method
EU long-term strategy	2019	2050	The EU aims to become the first climate neutral continent by 2050. This means becoming an economy with net-zero greenhouse gas emissions, aligning the EU commitment with the international climate cooperation proposed under the "Paris Agreement".	Recording this target among its current 2019-2024 priorities. Plus, all the following regulations and policies follow this strategy, in addition to the requirement of all member states to develop their own national long-term strategies.
European Green Deal	2019	2030 - 2050	To achieve a just and inclusive transition of the economy and society. Also, it represents the European lifeline out of the COVID-19 pandemic: one third of the 1.8 trillion euro investments from the NextGenerationEU Recovery Plan directed to the European Green Deal.	Initiatives to align current legislation with both 2030 and 2050 targets. In particular, mobilising fundings for the transition; enabling a framework for private investors and the public sector to facilitate sustainable investments; and supporting public administrations and project promoters in identifying, structuring and executing sustainable projects.
EU Sustainable Finance Plan	2018 & 2021	2018	To ensure that European financial systems and markets support the businesses transition towards sustainability, taking Environmental, Social, and Governance (ESG) considerations into account when there is a decision made in the financial sector.	(1) Reorienting capital flows towards a more sustainable economy (*EU Taxonomy, EU Green Bonds Standard*); (2) Mainstreaming sustainability into risk management; (3) Fostering transparency and long-termism (*Corporate Sustainability Reporting Directive (CSRD)*).
EU Green Bonds Standards (EUGBS)	2020	2025-2028	To help to scale up and raise the environmental ambitions of the green bond market. Green bonds allow: (1) issuers to demonstrate that they are funding legitimate green projects aligned with the *EU Taxonomy*; (2) investors to be protected from the risk of greenwashing.	Green bonds comply with a voluntary standard constituted based on the recommendation of experts in sustainable finance. This framework has several pillars: Taxonomy-alignment, transparency, external review, and supervision by the European Securities Market Authority (ESMA).

Source: Own elaboration

Instrument	Year of Approval	Year of Target	Purpose	Method
EU Taxonomy	2020	2020	To make truly green activities more visible and attractive to investors. To protect private investors from greenwashing.	Through a unified EU classification system that establishes a list of environmentally sustainable activities, as well as through mandatory disclosure requirements for companies.
Next Generation EU	2021	2027 - based on the *Multiannual Financial Framework (MMF)* approved	A green and inclusive recovery from the coronavirus pandemic, using this situation as an opportunity to emerge stronger from this crisis while transforming the economies and societies of the EU.	€806.9 billion temporary recovery instrument, funding several programs committed, at least partially, to the EU green transition: (1) "Recovery and Resilience Facility", (2) "Recovery Assistance for Cohesion and the Territories of Europe" (REACT-EU). These funds will be added to the long-term EU budget for a final stimulus of €1.8 trillion.
Fit For 55 Package	2021	2030	To set the intermediate target of cutting current emissions by at least 55% by 2030 compared to 1990's levels, to be on the good track for 2050 climate neutrality.	Initiatives to align current legislation with both 2030 and 2050 targets. Policy initiatives include: EU emissions trading system; member states' emissions reduction targets; emissions and removals from land use, land use change and forestry; renewable energy; energy efficiency; alternative fuels infrastructure; CO2 emission standards for cars and vans; energy taxation; carbon border adjustment mechanisms; sustainable aviation fuels; greener fuels in shipping; social climate fund.
Corporate Sustainability Reporting Directive (CSRD)	2022*	2023 - exception of 2026 for SMEs	Revise the *Non-Financial Reporting Directive (NFRD)* to ensure that companies publicly disclose adequate information about sustainability risks and opportunities, and about the impact of their activity on the environment and society (principle of "double materiality").	(1) Expansion of the scope of the NFRD to a greater number of companies (all large companies and all listed in regulated markets, except micro-enterprises); (2) Requirement of external audit of reported information; (3) Introduction of more detailed reporting standards; (4) Requirement of digitally tagging the reported information.

*The European Parliament has voted on the Commission's proposal for this directive and approved a series of amendments to improve it.

Source: Own elaboration

Implications of EU Regulation for Sustainability

	Short-term implications	Long-term implications
Environmental	• Sustainable transition at different rhythms and speeds within the EU member states • Focus on mitigation and adaptation of climate change, circular economy, biodiversity… • Spillover effects of the energy transition in investments and finance • Key role of R&D to develop sustainable technologies	• Less energetic dependence on fossil fuels (green hydrogen and renewable energies) • EU pioneer on sustainability, with other regions dependent on its expertise and technology ("Brussels Effect") • Stronger public-private partnerships • Alignment of EU member states (measures for a common direction and speed)
Social	• Unfair transition if measures are taken with urgency • Decrease in energy affordability (inflation)	• Balance of social and environmental dimensions for a just sustainable transition
Economic	• Prominence of financial incentives • Fiscal imbalances	• Higher geopolitical power • Transformation of the economic structure of EU countries (green infrastructure, services and skills) • Economic resilience to climate change

Source: Own elaboration

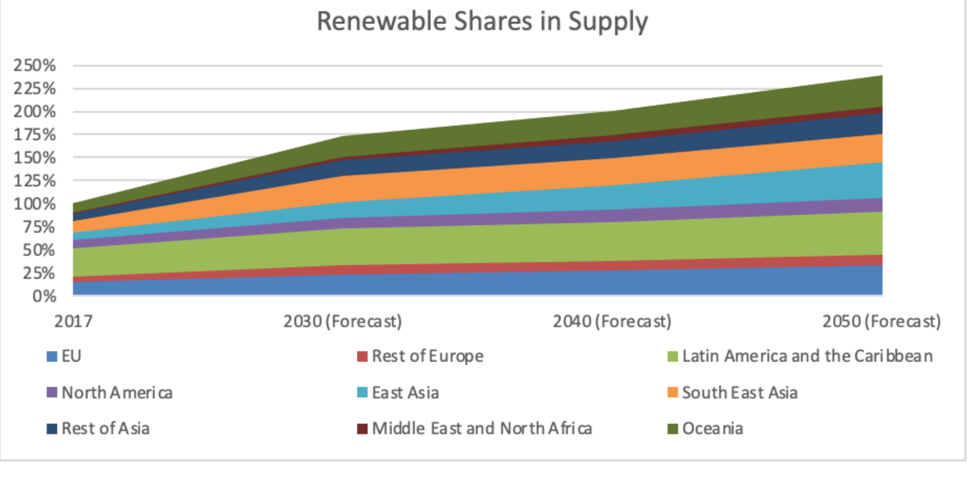
Comparison With Other Regulatory Systems

In order to compare the EU with other regulatory systems, a quantitative analysis on multiple different factors has been conducted: Installed Renewable Electricity Capacity (MW), Renewable Energy Shares in Total Energetic Supply, SDG Index, Goals 12-13-15 of the SDG Index, Energy Consumption and Energy Supply forecasts.

To calculate the total renewable energy electricity capacity, we took into consideration Solar, Wind, Renewable Hydropower, Marine, Bioenergy, and Geothermal energy capacity, from the year 2000 to 2021 for every EU 27 country, and summed them. Finally, we calculated the increase of total capacity every year.
Finally, we used forecasts on future renewable shares in total energy supply for different world regions calculated by IRENA, based on present and future regulations effect, in addition to investments plans and trends.

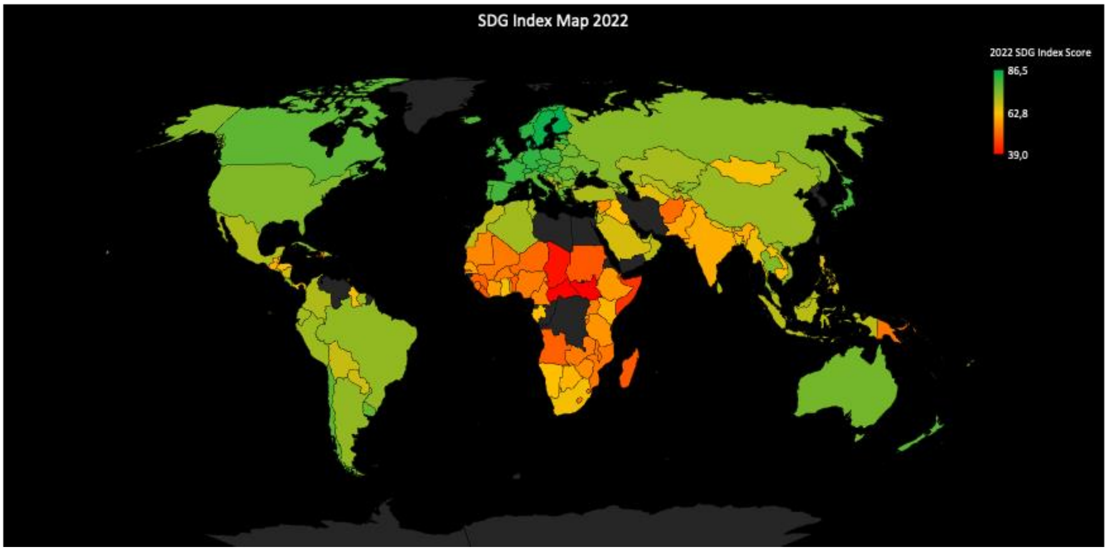
We developed a map in order to highlight the EU's 2022 position in terms of Agenda 2030 and the Sustainable Development Goals (SDGs), adopted by all member states of the United Nations in 2015. The SDG Index score takes into account the 17 Goals of the Agenda. As a result, the EU shines as the most sustainable region in the world.

Complete view of the Sustainable Development Goals (SDGs) included in the 2030 Agenda for Sustainable Development promoted by the United Nations (UN).
Source: United Nations (2022): "Sustainable Development Goals", available online: https://www.un.org/es/sustainable-development-goals [Accessed 27 June 2022]



Renewable Shares in Supply, 2017, 2030 -40 -50 forecast.

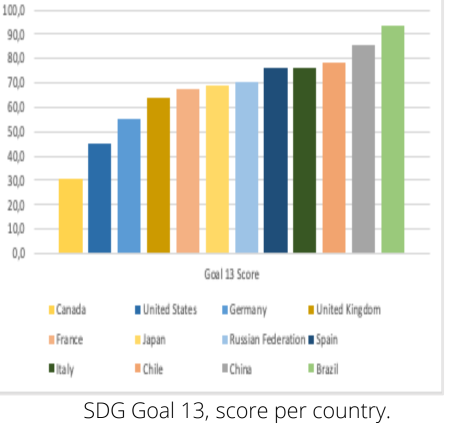
Source: Own elaboration, IRENA (2022): "ANNEX: REGIONAL FACTSHEETS".



SGG Index Map.

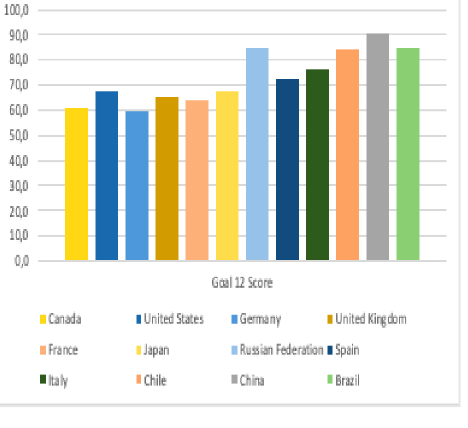
Source: Own elaboration, SDR Database 2022.

However, by taking a closer look at the 17 SDGs of the Agenda, SDG 12 (Responsible Production and consumption), SDG 13 (Climate Action), SDG 15 (Life on land) appear as the most relevant for our purpose; an essential goal in the words of Ban-Ki Moon (Secretary General of the UN between 2017 and 2016) is especially goal 13, as he expressed that “if we do not address climate change, all the other 16 Sustainable Development Goals will be spoiled". When taking a sample of countries from almost every continent, the EU members do not appear anymore as uncontested leaders, but rather as in line with South America and China.



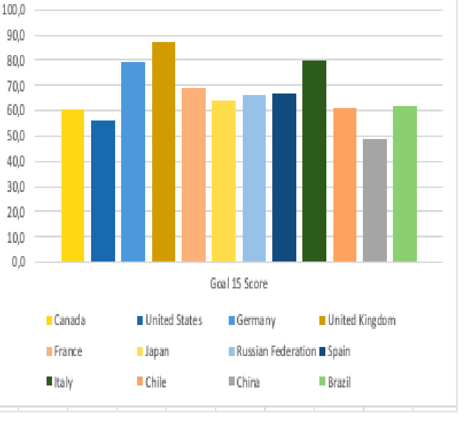
SDG Goal 13, score per country.

Source: Own elaboration, SDR Database 2022.



SDG Goal 12, score per country.

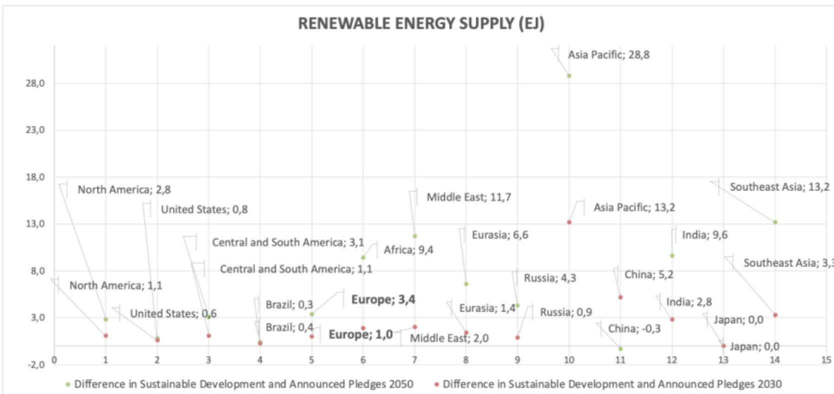
Source: Own elaboration, SDR Database 2022.

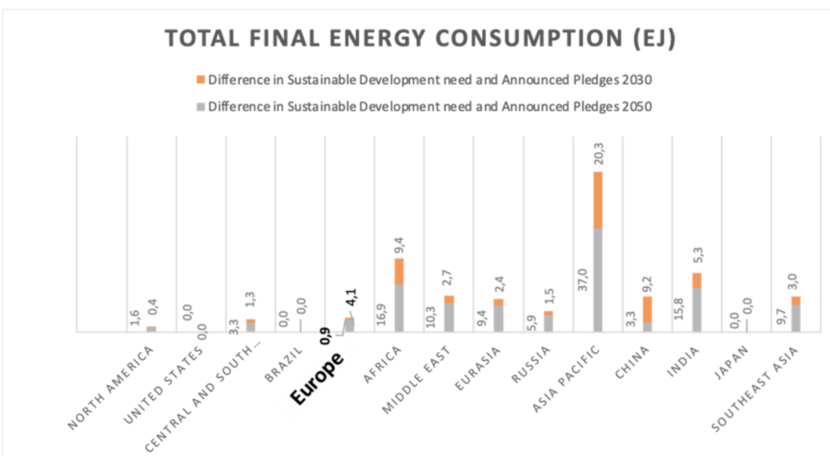


SDG Goal 15, score per country.

Source: Own elaboration, SDR Database 2022.

Still, when it comes to proposed policies and governance, the EU still stands as the world's sustainability leader. The 'World Energy Outlook' report by the International Energy Agency reflects data regarding announced pledges and ideal values for sustainable development in 2030 and 2050. From a graphical representation of Total Final Energy Consumption and Renewable Energy Supply, the EU appears to have very ambitious goals, in line with what is necessary to achieve sustainable development.





Renewable Energy Supply and Total Final Energy Consumption (EJ), difference in sustainable development and announced pledge, 2030 (Red) and 2050 (Green).

Source: Own elaboration, SDR Database 2022.

As a result, the EU is far from being the leader in terms of installed renewable energy capacity, given that countries like China has significantly more. According to IRENA's projections, despite its ambitions, the EU is not leading the way toward sustainability in absolute terms. Goal 13 (Climate Action) -SDG Index- confirms this, with EU nations no longer appearing as undisputed leaders, but rather as aligned with South America and China. It's nevertheless worth noting that the EU is a frontrunner when it comes to all 17 SDG targets: when comparing the EU's long-term ambitions (2050) supported by policies to what is required to achieve sustainable development, it still ranks first in the world, ahead of the mentioned regions.

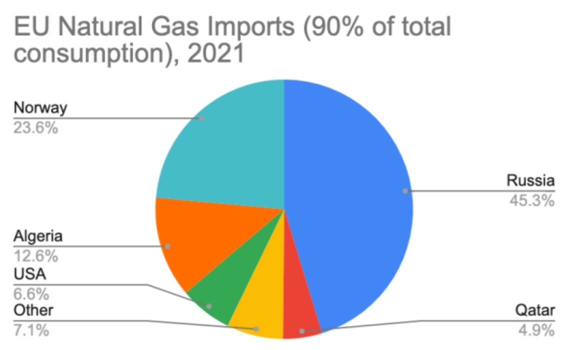
REPower EU

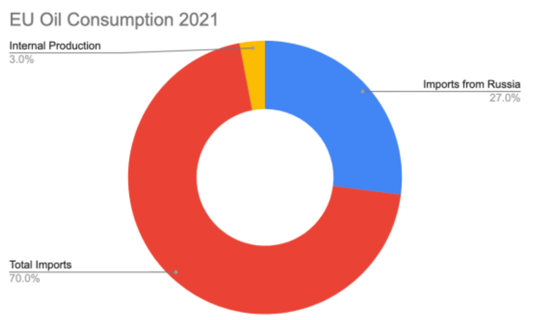
The European Commission published the "Joint European Action for more affordable, secure, and sustainable energy (REPowerEU)" on the 8th of March 2022, aiming to reduce the EU's reliance on Russian fossil fuel imports and introducing measures to solve the EU's ongoing energy-price crisis. This new set of regulations, "REPowerEU", aims at diversifying gas supplies, accelerating the deployment of renewable gas, and replacing gas in heating and power generation.
As a result, the current Russian geopolitical challenge, and its subsequent macroeconomic consequences on the energy market, boosted the EU's sustainability regulation plan, with a focus on green energy. While in the short-term the regulations focus on state aids to control energy prices for consumers, long-term planning aims at redesigning Europe's energy market, focusing on energetic independence via major reliance on renewable energy sources and on diversifying gas supply origins. The former, regarding reducing dependency on fossil fuels, accelerates the current framework for sustainability in the Union, and thus is of great interest for our matter.

In this sense, the EU is now considering loosering green standards, at least in the short run, to be able to replace Russian fossil fuels. Companies would be permitted to construct wind and solar projects without the need for an environmental impact assessment, in an effort to avoid the lengthy and complex administrative procedures that can be barriers to renewable energy investments.

Furthermore, removing barriers is necessary for hydrogen, as imported hydrogen is the only possible replacement for Russian gas, according to Frans Timmermans, vice-president of the European Commission for the "European Green Deal". Nonetheless, hydrogen can be categorised as 'green' or renewable only if during its production it does not increase the use of electricity generated from fossil fuels and if it returns as much renewable electricity to the grid as it used up.

Current situation





Sources: Own elaboration. European Commission (2022): Communication from the commission to the European Parliament, the European Council, the European Economic and Social Committee and the Committee of the Regions; REPowerEU: Joint European Action for more affordable, secure and sustainable energy.

Chapter 2:

The impact of European Regulation through companies inside and outside of the EU

The amplifier effect of companies

Once the main EU policies and measures have been covered, we are going to look at how EU sustainability regulation on companies in Europe has effects that go beyond the European borders. Then, a scenario analysis will be performed on the effects of the "European Green Deal" over investments and activities of private actors. For this final goal, interviews with experts in the field were conducted, and their perspectives on the state of the EU regulatory sustainable transition and its impact on business and society were synthesized.

It is key to understand the "EU Taxonomy" in order to capture the potential amplifier effects of European regulation through companies, inside and outside of the EU. Its effect on non-european companies is crucial to understand and evaluate the potential effects of the EU sustainability transformational power. The global nature of financial markets and trade flows have direct regulatory effects on these companies. The "EU Taxonomy" and other sustainability related regulations might inspire other regions in the world, following the pioneering example of the EU to prevent the greenwashing. It also has effects on companies operating or trading in European markets and applies to non-EU investors that want to invest in Europe.

Local authorities' engagement to private actors determine a great part of climate change actions implementation. As a result, a strong collaboration between private and public authorities appears as potentially key both to the implementation and effectiveness of the EU sustainable path. Rules issued from EU regulation need to be adapted by local authorities to benefit both private and public actors through the long-term sustainability of private and public goods.

It is relevant to approach the sources and scope of EU law, in order to understand their application, enforcement and adaptation to private companies and the mechanisms of control of the Union. Regulations are binding and directly applicable to all private individuals, companies and Member States. Differently, Directives are binding to all the members they are addressed to but, according to the Article 4(3) TEU, the methods of their implementation are designed by national states. As a result, public authorities can potentially collaborate at the national level with private companies or individuals to establish Directives. Lastly, Decisions are directly binding to the entity they are addressed to, whether member state or individual. Recommendations and Opinions have no rights or obligations directed to member states, private companies or individuals allowing the latter to participate in the decision-making process of recommendations and opinions in order to steer top-down future effective legislation.

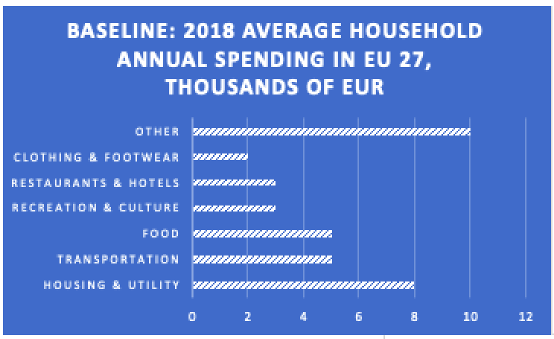
The EU has the ability to shape global capitalism; thus, unilaterally regulating global markets through the "Brussels Effect". The above-mentioned internal regulation regarding firms, models the European Business environment, and indirectly Europeanizes the global business environment. Market-based incentives might be replicated at institutional and governmental level abroad, inspired by their eventual success in the European market.

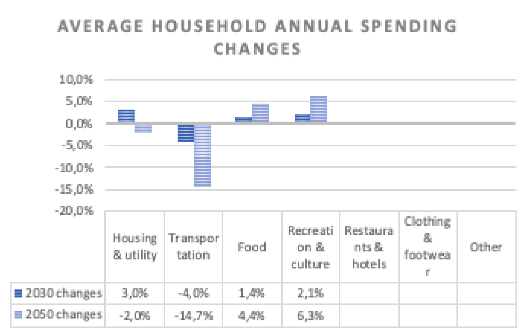
On the other hand, normative standards strongly affect all private companies operating, producing and trading from and to the EU market which transforms the EU standards into international standards as multinational companies voluntarily extend the European rule to govern their global operations. Still, some debate exists regarding the intensity of the "Brussels Effect" through the use of hard or soft power. As firms might just do the minimum necessary to be able to operate in the EU and might seek out of the European Market for more lax environments in terms of regulation.

Net Zero Forecast

Before approaching a Scenario Analysis, it is important to gather forecasts regarding macroeconomic consequences of the Net-Zero carbon path that the EU is taking. This would be our baseline to understand effects on households and private companies, if no major changes affect current regulation.

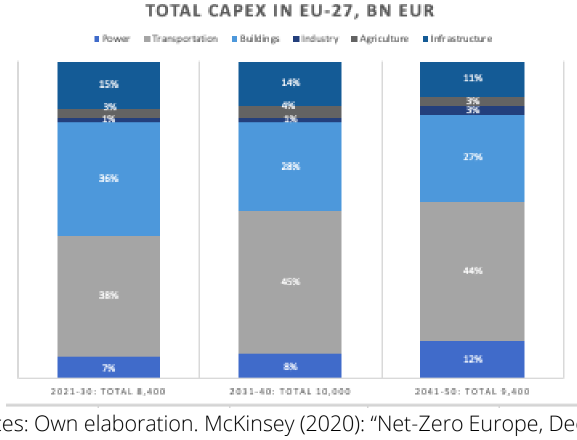
The average household annual spending is expected to change in composition proportion by 2050. For instance, the cost of transportation per household should reduce considerably (14.7%), as well as Housing & utilities (2%). This is probably due to lower fueling costs related to transport, and lower electricity and gas bills for households. However, some costs are also expected to rise: Food (4.4%) and Recreation (6.3%). This could be caused by struggles for the agricultural and recreational industry in adapting to new regulations, hence higher prices. However, for consumers the balance appears positive.

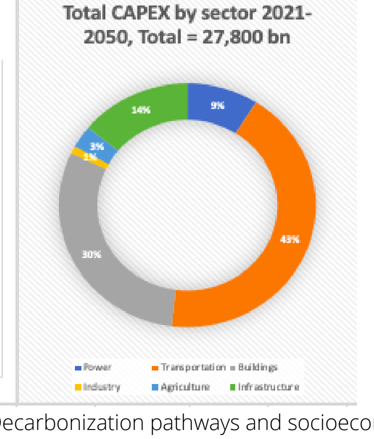




Sources: Own elaboration. McKinsey (2020): "Net-Zero Europe, Decarbonization pathways and socioeconomic implications"

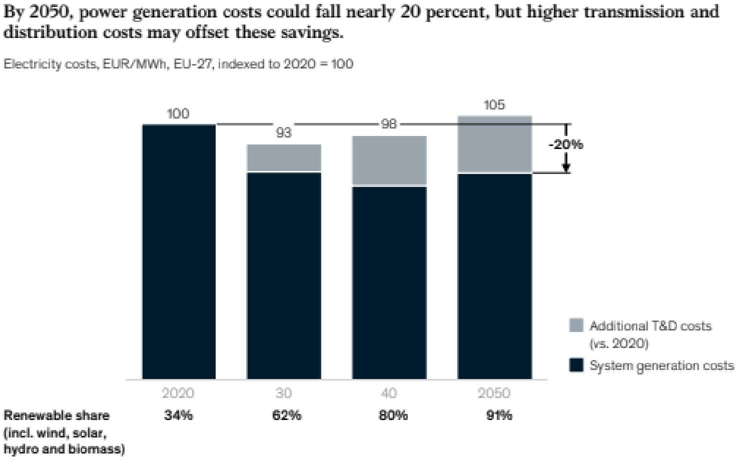
From a macroeconomic point of view, capital expenditure is expected to account for 8.4 Trillion Euros from 2021 to 2030, 10 Trillion Euros from 2031 to 2040, and 9.4 Trillion Euros until 2050. Most of the investments are expected to be directed towards the transportations and buildings industry, followed by infrastructure. As a result, high investments appear to be correlated with lower prices for consumers, while lower investments, such as agriculture, might result in difficulties to adapt for the industry, resulting in higher prices for consumers.





Sources: Own elaboration. McKinsey (2020): "Net-Zero Europe, Decarbonization pathways and socioeconomic implications"

Finally, although system generation costs are expected to decrease by close to 20% from 2020 to 2050, total electricity costs could be higher in 2050 than in 2020. Transmission and distribution costs are expected to rise, offsetting the generation savings.



Sources: McKinsey (2020): “Net-Zero Europe, Decarbonization pathways and socioeconomic implications”

Scenario Analysis

The European Environment Agency (EEA) developed four different scenarios (Appendix Figure II), where different stakeholders have different importance in the transition. Impacts on private companies are very different from each other according to each scenario, and multiple actors might benefit from a certain scenario more than another one. In order to understand which scenarios are more likely to happen, the conducted interviews to experts in the field have been essential.

According to the interviews we conducted, green growth is becoming a competitive advantage for Businesses, thus sustainability appears to be driven by liberal market forces. As a result, the EU is currently going towards the scenario of “the great decoupling”. However, recent major events, Covid-19 and the war in Ukraine, are shifting the EU towards the “Unity in Diversity Scenario”. Indeed, new regulation (RePower EU, NextGeneration EU) has been produced following these recent events, with a EU long term sustainable strategy that inspires all sustainable regulation (referring to the scenario of a possible future “common constitution”). Finally, all interviewees agree that the EU regulation has a positive impact on companies, thus enforcing the possibility that “Top-down” measures will be adopted.

SREU entropy in the private sector: sustainability, trade, investments

The sustainable regulation of the EU can have other counterproductive and unforeseen consequences, can pose some challenges and it can be accompanied by a number of risks. It has to be noted that 76% of European companies have publicly announced targets to cut emissions, in line with the EU´s target date of a 55% net reduction in greenhouse gas emissions by 2030.

In fact, studies have shown that companies need to double the pace of emissions reduction by 2030 and triple it by 2040, especially those in the automotive, construction, manufacturing, oil and gas, and transportation and storage sectors. This is leading to a growing sense that they are paying just a "lip service" to environmental concerns to keep investors and regulators satisfied, and that companies are not moving fast enough towards sustainability.

Likewise, it has to be noted that business transformation is costly. A new report by strategic consulting firm McKinsey & Company suggests that Europe's ambition to become climate-neutral by 2050 would cost the continent roughly €28 trillion over the course of the next 30 years. Therefore, this transformation does not come without its challenges, meaning that politicians, executives and others will need to step up their game. However, going too far in imposing a mandatory due diligence for businesses could lead to a suffocating sustainable corporate governance framework that undermines the real-world impact of the reforms towards sustainability.

Importantly for the future of sustainability, 65% of businesses in Europe do recognise the importance of environmental sustainability for their competitiveness in the market in which they operate. Yet 65% claim they are unsure about, or don't have the resources to achieve meaningful change and only about a quarter of business leaders have set long-term sustainability goals. Moreover, it is important to highlight that up to 60% of business leaders reported lacking an incentive to reduce their environmental impact, despite the important push by the EU to help businesses improve their ESG performance.

Therefore, it is possible to perceive that the current strategies and incentives given to companies deployed are not being adequate in many cases for short term changes in business decision making.

Thereupon, this section of the chapter will examine all the introduced risks linked to the EU regulation and sustainable transition. A special focus will be given to the current conflict between Russia and Ukraine, which might undermine global cooperation in the field.

Risk Sample

There is not a unique definition for sustainability. Popular conceptions of sustainability include various terms, assumptions and perceptions, which result in different notions depending on elements such as the location or the nature of the issuing institution. Consequently, sustainability becomes something difficult to measure, remaining unclear which are the optimal indicators. The complexity of quantifying sustainability has frequently led to ESG measures that obscure important insight into processes, misdirect the focus away from systems, as well as misrepresent broader essential values. Yet, measurement remains essential for achieving a real transformation towards sustainability, following the old mantra that states that "what gets measured gets managed"; therefore, companies face an important challenge when attempting to mitigate the negative effects that their actions might have on the environment.

Moreover, "*as long as development is measured through indicators like the Gross Domestic Product (GDP), there will be contradictions with sustainability*" - Alberto Muelas explains (Sustainability & Economics Director in KREAB).

Not only GDP does not directly address environmental quality, but the definition of development it offers is almost exclusively economic. Data from the World Bank's World Development Indicators database illustrate how as global GDP per capita grew by half from 1990 to 2006, the same increasing trend was followed by air pollution and greenhouse gases emissions. Internationally, growth has traditionally counteracted environmental pressures and resource consumption, being this last no longer caused by population growth -as it happened from 1970 to 2000- but by other emerging drivers like the appearance of a global affluent middle class and the technological evolution.

Without a common definition and indicators for sustainability, the risk of greenwashing increases. Misconceptions might arise, potentially leading to businesses to utilise this confusion to promote activities as sustainable while non-complying with enough standards of environmental protection. These practices might take the form of low quality ESG disclosures, hidden trade-offs, baseless claims or partial truths, among others. In any case, greenwashing is able to mislead market actors while not giving due advantage to the businesses that are truly commercialising sustainable products and services - ultimately transforming the economy into a less green one. Greenwashing can be caused by non-market drivers such as lax and/or uncertain regulation. This can be illustrated by the fact that today more than 200 environmental active labels can be found in the EU, as well as more than 80 widely-used reporting initiatives exclusively for carbon emissions. Logically, not all of them cover the same issues and present a minimum degree of reliability.

Moreover, the theoretical transition of the Union might be disconnected from the practical transformation that businesses, consumers and other private agents are facing if the appropriate incentives are not offered by governments and public institutions. If such support is not provided, transformational costs of becoming 'green' might be too high considering the lack of resources suffered by many companies, since "*the sustainable transition is, indeed, going to be costly*", as highlighted by Alberto Muelas. "*There is obviously a risk that some companies may not be able to move at the pace that the regulation of the European institutions want them to*", in the words of Fernando Rodríguez-Mata (Public Affairs Executive Associate in Kreab); or even "*resisting to follow-up on the Sustainable Agenda*", according to Patricia Gabaldón (Director Bachelor of Economics in IE University). This is specially claimed by small businesses, who also highlight a lack of time to implement environmental strategies on their own. Consequently, while other economic and financial priorities of business still eclipse sustainability matters, it is more attractive and cheaper for companies to stick with the status quo in the short term. This is true even if those financial efforts would probably be converted in more durable profitability over the long run.

Among the most important resources involved in this scarcity problem are green skills. Both companies and public institutions are struggling to hire qualified talent with the required expertise to support the sustainable transformation proposed by the EU; especially considering that, once the required talent is found, "*companies need to have the budget to afford the right people*" - Aída Rodríguez (Iberia Sustainable Finance & Non-Financial Risk Lead in Accenture).

This contrasts with the traditional practices of companies, characterised by limited Corporate Social Responsibility (CSR) departments, resulting in a complete disconnection with the core business and "*in a lack of cross-cutting communication about sustainability*" - Mónica Zaldumbide
(Head of Sustainable Operations in Ocean Born Foundation).
Yet, the business blueprint is shifting towards a holistic approach towards sustainability, integrating it into the corporate values and workforce strategy by making every decision through the lens of sustainability and long-term planning. If CSR was considering sustainability as philanthropy or marketing, now ESG focuses on business management, risks and opportunities.

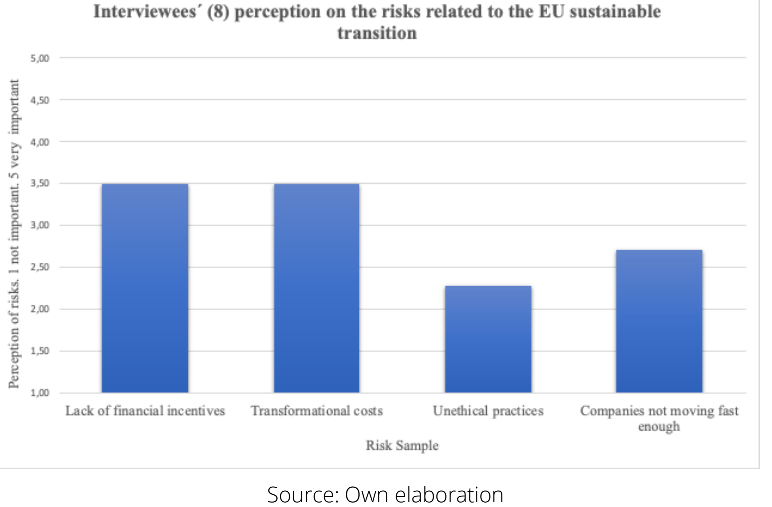
In addition, without clear guidelines about the steps that companies need to take to turn sustainable, a risk of a lack of knowledge might exist, which especially results in "*high degrees of uncertainty if there is a lack of long-term information*" according to Alessio Terzi (Economist in the European Commission). This difficulty is especially true among small and medium traditional enterprises, who are the ones suffering more scarce resources. Certainly, many leaders of small corporations still do not consider environmental issues as a priority, which clearly reflects their lack of understanding about where to start with sustainability plans. "*Regulations should be done for everyone; if not, a risk of lack of credibility of the EU institutions arises*", as specified by Mónica Zaldumbide. However, the current lack of insights and tools make these companies unprepared to develop a corporate sustainability vision, strategy and framework, particularly if the organisational culture is not open to the innovation implicit of this transformation.

In spite of the existence of instruments like the "Next Generation EU" funds that declare the Union's commitment of pursuing a fair and inclusive sustainable transition, there is the risk of not complying with the principle of "leaving no one behind". Exactly as it happened with other complex phenomena such as globalisation, the sustainable revolution described by the EU might define winners and losers. Indeed, the number of people and organisations losing from it might be high, potentially leading to companies permanently closing their businesses, rejection by societies, or even increasing tensions among the different member states. Truly, "*urgency for a green transition can lead to unstructured and untargeted policies, which might result in social downsides to sustainability*" in the words of Alessio Terzi. These results are not improbable considering that, till the present, the EU is being more successful in protecting the environment than the people.

Finally, many times decisions related to sustainability are taken at a national level, which can lead to international fragmentation. As international cooperation is essential to solve climate change and enhance environmental protection, all events disrupting this collaboration represent a risk for sustainable development. Likewise, "*there might be a counterproductive regulatory 'tsunami' able to produce high fragmentation between the European and national levels*", as specified by Verónica García (Sustainability Associate Director in KREAB). Such fragmentation would lead to an inferior degree of harmonisation in terms of environmental protection than the one envisioned by the EU, which may result in distinct sustainability criteria coexisting within the Union (at least in the short run).

The EU has both the opportunity to join or fragment further the Union due to the existing polarisation. Certainly, if the requirements included in the European regulations are too aggressive towards private agents, "*there is a risk that they provoke the opposite impact to the desired one, a kind of 'burn out' effect*" according to Aída Rodríguez, being able to worsen existing political tensions and the environmental footprint.
Moreover, if decisions are taken at the national level, they might suffer from politicisation, since some governments might try to influence the existing regulations to satisfy their needs and gain public support from their voters; thus, the legal definition of what is sustainable and what is not that they promote might be biased.

To conclude, this analysis has been carried out in line with the answers given by the experts interviewed. Based on their responses, it is possible to determine that the risk considered to be the greatest and most prominent is the lack of financial incentives for companies, in agreement with 90% of the respondents. For the experts interviewed, the lack of incentives and the transformational costs are 35% more important than unethical practices performed by companies. Indeed, unethical practices and the possibility of companies not moving fast enough are the risks least important for the sustainable transition, having a score below the average in the interviews, that includes the interviewees perceptions on the risks related to the EU sustainable transition. Similarly, a summary table of all the risks analysed, recommendations and the regulations that the EU has established to deal with them -further developed in Chapter 3- can be found.



Source: Own elaboration

Global cooperation failure due to the Russia-Ukraine crisis

The lack of global cooperation can lead to a failure in the achievement of a sustainable transition. The combination of a multilateral decision-making process with a positive impact on global challenges leads to the desirable global prosperity; however, a national and polarised decision-making process with a negative impact can provoke unequal and severe impacts. In the current context, predominantly dominated by the Ukraine war, global cooperation is at stake.

When the crisis started, voices were heard saying that "*Putin had done more for the ecological and sustainable transition than anyone else*".Nevertheless, the situation might be different. After the pandemic, the effort to combat the global challenge of sustainable development has been increased, but the Russian invasion of Ukraine and the increasing strained geopolitical climate threatens to derail it.

As commented by Gloria Gubianas (Co-founder, CEO & Impact Director in Hemper Handmade), "*conflicts like this shift the focus towards peace and security, so there is a risk of sustainability being left aside temporarily*". The great repercussions of the war and the global reaction to it, show that it will have more far-reaching consequences than any other recent conflict. Therefore, financial and technological support as well as investment can become contingent on ideological alignment rather than being based on environmental and scientific reasons, or the benefit of citizens. The war has provoked diverse concerning aspects: an emerging global food insecurity, risks related to the progress on the clean energy transition and, importantly, the state of multilateralism and international cooperation.

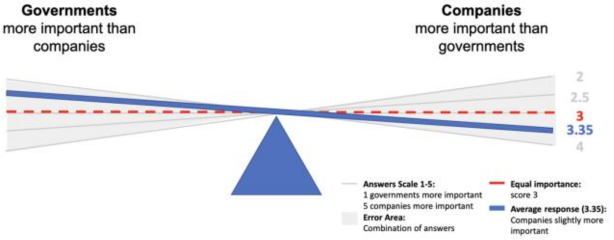
Climate change and the sustainable transformation that society and companies have to face can only be addressed through cooperation and international commitments. The Ukraine war, even though in the beginning showed the unity of international actors like the EU, has revealed lack of international cooperation. The crisis is creating imbalances among countries, as some are specially affected by the situation while others can benefit from it by creating opportunities, through their comparative advantages.

There are different positions within the EU regarding how to tackle the diverse challenges ahead, which may jeopardise the need for a single sustainable strategy as regulation bias still exists. Moreover, the very negative consequences of the war, in the short term, on energy and food prices, can also put at risk the fundamental social dimension of the sustainable transition in the EU. Part of the society can be severely harmed, and their support for the sustainable effort, undermined.

Chapter 3:
Final Recommendations and the Future of the European Regulation

Throughout this report it has been possible to analyse EU sustainable regulations, from which we have been able to draw the conclusion that the Union is among the world leaders in the implementation and design of sustainable policies, but that other countries and regions are further ahead. We have also taken into account the important impact of European regulation both internally and externally, through the "Brussels Effect". However, despite the apparent success that EU sustainable regulation may have due to its undoubted impact, it is surrounded by certain risks, some of them very serious, which have been pointed out and perceived by the various experts interviewed. Taking all of the above into account, it is possible to set out a series of recommendations on sustainable EU regulation.

As a first recommendation, if the Union desires to count with the support of the companies, the EU should give adequate and enough incentives to help them overcome the existing resource scarcity problem, especially focusing on those that cannot afford the normally high upfront investments. Likewise, an alignment between the market forces and regulation must exist, since both governments and companies have essential roles in the sustainable transition.



Source: Own elaboration

New rules should be implemented to force the economic and market system to be sustainable, being incentives a convenient tool to do so. This instrument, in the form of prohibitions, taxes or subsidies, not only can be targeted towards private companies, but also the public sector and the society. Indeed, according to the OECD (2017), incentives have the capacity of punishing unsustainable behaviours and promoting sustainable products and services to transform the current results of behavioural economics, which are leading consumers and businesses to adopt unsustainable practices.

Related to the above, investing in innovation and R&D is essential, considering the urgent need to make the transition feasible in energy, social and economic terms. Similarly, financing standards must be further developed to effectively boost green economic investments, in line with the European efforts developed through the "EU Finance Plan" and the "European Taxonomy", providing transparency, visibility and security. Plus, the market is increasingly demanding products and services with such characteristics, "*serving market forces as complementary incentives to institutional support*" - Alessio Terzi. Indeed, according to Gloria Gubianas, "*the behaviour of investors has positively changed in the last years; they are now interested in sustainability, although obviously there is a lot of work ahead*".

It is very important to consider that private initiatives of collaboration can represent a helpful instrument to create ecosystems of innovation made up of a variety of stakeholders to gather efforts for the creation of a sustainable future. As pointed out by Patricia Gabaldón, "*the influence in multinational corporations is key to push further the sustainable agenda*".

This is the reason why strengthening public-private partnerships to overcome complex challenges in a more transversal way, in line with SDG 17 (Partnerships for Goals). Including stakeholders in the decision-making processes and continuing to spread the EU higher standards (through inspiration to public instances and through companies' activity) could maximise the potential of the "Brussels Effect".

The importance of enhancing the social dimension of sustainable policies has been highlighted too, key to avoid that some sections of society see themselves as disadvantaged and/or forgotten. Thus, if the EU desires to reduce the social risk attached to the current sustainability strategy, "*sustainability would change its focus towards the people*" according to Blanca Pérez (Executive Associate of Sustainability & Economics in KREAB), to be able protect all social groups and humanise further the concept of European sustainable development.

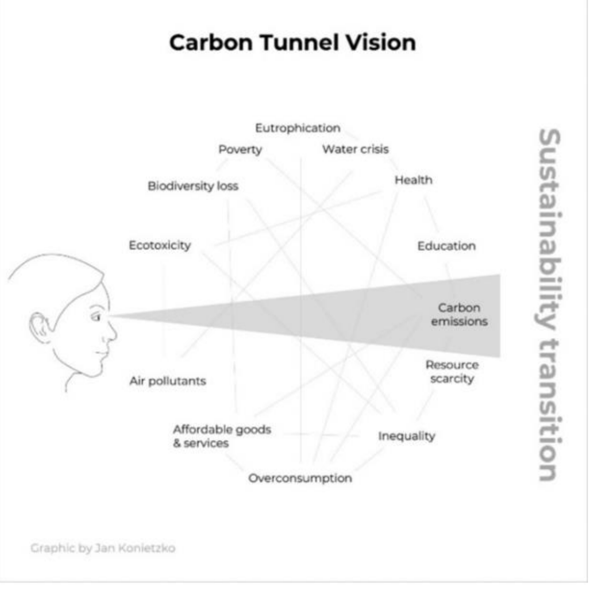
Ursula von der Leyen is already proposing that the EU should take action now to protect the so-called "social sustainability", not focused on environmental aspects but according to a catalogue of social criteria. By doing so, the EU would be more effective in assessing whether private organisations' activity is serving the public interest. Indeed, Alejandro Manso (Associate Director of Public Policy & Regulatory Affairs in KREAB) stresses that "*real sustainable growth is only possible if it is environmentally and socially balanced*"; therefore, "all the productive, economic and social systems, including consumers and citizens, must be included in the transition".

Related to the social aspect, education has to be considered at the heart of sustainable policies, both with the promotion of the green skills and the development of an easier and more extended access to information and knowledge regarding the sustainable transition. The EU must be aware of how the transition toward a climate-neutral economy and society will trigger a transformation in several industries, in the labour market and the education system of the member states. The Union -knowing that existing jobs will be either redefined or replaced by new ones- has to actively support agents such as labour organisations, education bodies and public authorities to help those seeking an occupation in the green economy, particularly: promoting green jobs, addressing worker training and reskilling, anticipating future transformations, and incentivizing companies to transform traditional CSR towards more holistic ESG.

Moreover, companies need information both about the benefits and constraints to be an active part of it. Therefore, the communication strategy of the EU should be enforced, to make information more accessible and to ensure that every private agent (including investors and companies) comprehends the policies and mechanisms in place. Guaranteeing transformational and participatory power under a market based scope could incentivize and further amplify the positive spillovers of the EU sustainable development.

Plus, there is a need to develop a more holistic approach to sustainability since the current conception is suffering from the "Carbon Tunnel Vision" phenomenon, which provokes that the Union focuses almost exclusively on carbon emissions. Thereupon, the EU might want to focus on the protection of biodiversity, and in the already-mentioned Social Agenda.

This would surely strengthen the synergies between the "Paris Agreement" and the "UN 2030 Agenda", as well as link these international instruments further with the "European Green Deal" and all the other EU regulatory mechanisms.



Source: Nybo Jensen, T. (2021): "Expert Opinion: Avoiding carbon tunnel vision", Environment Analysis, available online: https://environment-analyst.com/global/107463/expert-opinion-avoiding-carbon-tunnel-vision [Accessed 29 June 2022]

In the same line, the EU could channel efforts to define sustainability more precisely and avoid the existing measurement challenges that companies and other private and public agents might be suffering from. The EU is already working on developing some guidelines that firms can follow to measure their sustainable performance: the European Council has adopted the Commission's proposal for a new "Corporate Sustainability Reporting Directive" (CSRD), which will increase companies' accountability, prevent divergent national divergence and facilitate the sustainable transition.

The EU needs to continue promoting new frameworks in which companies are judged for their impacts -economic, social and environmental- rather than solely by their profitability.

Moreover, the EU could redefine development, which has traditionally been measured through indicators like the GDP and systematically ignore sustainability. There are other ways of achieving prosperity in line with the current environmental and social burdens. It is possible to note the term "degrowth" that is related to the possibility to organise a transition and live well under a different political and economic system that has a radically smaller resource throughput. Economies can be stabilised, reaching an equilibrium, without growth if basic monetary, fiscal, labour, and welfare institutions are transformed, counting with technologies that can provide solutions to human needs.

Truly, complete definitions of sustainability and progress would decisively reduce the risk of greenwashing. The EU is trying to solve this situation through the development of the "EU Taxonomy". As part of the "European Green Deal", the EU intends to assure that claims on the environmental performance of companies are reliable, comparable and verifiable across the Union in order to allow market actors to take greener decisions.

The Commission proposes to add environmental characteristics to the list of product characteristics available for the consumer. This goes in the same direction as Gloria Gubiana's recommendation when stating that "*the EU could reduce the risk of greenwashing by promoting a transparent, official and fair certification process*".

Another key point refers to the increasing international fragmentation, enhanced by the situation in Ukraine, which could be translated into a lack of harmonised standards at the EU level. If designed and implemented appropriately, Directives can represent a convenient tool towards greater unification of sustainability standards. For instance, the "Corporate Sustainability Reporting Directive" (CSRD) has among its main goals preventing divergent national standards. Moreover, Patricia Gabaldón highlights the importance of supporting new EU member states, since "*all countries joining the Union must be incentivized to comply with the sustainability agenda*".

Finally, a proper coordination of the interactions between EU and national stakeholders must be a priority for the Union. This would help the EU to avoid that the national decision-making is politicised, which could lead to inconsistent and divergent standards across member states.

Therefore, EU institutions should prioritise long-term decisions and measures, taken at the European level, to reduce the potential dependency on the political cycle and avoid maximising short-term outcomes while compromising long-run results.

Appendix

Figure 1: Insights from the Interviews Conducted to Sustainability Experts

	Among the experts interviewed	
Phase of the decision making process in the EU Sustainability Regulation	Consensus	Other key highlights
Input	• Clear existence of a target and objectives, new regulation/political compromise • Europe ahead in terms of regulation and referent of innovation • Lack of a common definition of sustainability	• Focusing the measurement of economic performance on GDP is not adapted to the sustainable agenda • The EU might not be dedicating enough resources to promote a sustainable transition
Output	• EU is a power in sustainability • The EU is moving in the right direction • The EU should push forward a Social Agenda to compliment the Sustainable Agenda (fair transition) The existing urgency leads to unstructured policies: • Member states do not agree on the speed to implement the sustainable agenda, which results in a slow action • Lack of coordination among the social, environmental and governance dimensions of sustainability • Lack of regulation unification in EU national States	Diverging importance given to areas: • Promotion of local consumption • Responsibility along the whole supply chain • Carbon border adjustment mechanisms Role of companies - only some interviewees mentioned the following aspects: • Importance of markets trends and Competition over Regulatory Framework
Outcome	Existence of the "Brussels Effect": • EU as a reference for other regions • Copycat effect between companies, at the EU and global level • Companies are key agents for the transition as they produce a spillover effect beyond EU borders Companies: • Companies are transforming their strategies and activities towards sustainability • Companies' actions are more important, but governments are the ones exerting pressure to them and establishing the sustainable framework • EU Sustainable Strategy has a positive impact on companies Risks associated: • Lack of information • Transformational costs and lack of financial incentives • Losers and winners in social terms • Fragmentation among member states	• EU will lose influence in the future due to the emergence of other regions • Imposition of EU standards abroad Role of companies - divergent views among interviewees: • Degree of influence of the "Brussels Effect" Not clear risks among the experts: • Greenwashing • Unethical practices

Source: Own elaboration

SCHOOL OF POLITICS, ECONOMICS & GLOBAL AFFAIRS KREAB WORLDWIDE

Figure 2: Future EU Scenarios (European Environment Agency)

EEA Scenarios	Main Characteristics
“Technocracy for the Common Good”	● Sustainability is achieved through state control, which prioritises society’s collective interests. ● Digitalisation enables unprecedented monitoring and control of social and ecological systems. ● Economic activity is centralised with large businesses under substantial state influence. ● The EU is a well-functioning partnership among strong, like-minded governments leaning towards de-globalisation and protectionism.
“Unity in Diversity”	● Faced with recurrent environmental and climate disasters, geopolitical insecurity and financial shocks, Europe has become much more unified. ● The EU has a common constitution and uses stringent, top-down measures to set the boundaries for economic activity — promoting growth but prioritising the environment. ● Investments in nature are heavily promoted as a means of mitigating and adapting to environment- and climate-related problems.
“The Great Decoupling”	● Technological breakthroughs and social innovations have enabled an extraordinary decoupling of GDP growth from adverse environmental impacts. The bioeconomy is at the core of this transformation. ● Businesses in competitive, liberalised markets have driven green growth. Effective government interventions are shaping market incentives and managing the impacts of rapid economic change. ● Cooperation between EU countries is flexible and pragmatic, focusing on a limited number of areas.
“Ecotopia”	● The need to preserve and reconnect to nature and the local community is part of society’s ‘common sense’. Technology is used sparingly to enable sustainable lifestyles. ● Consumption and resource use are being scaled back. Reduced economic output is limiting the size of the public sector, implying a bigger role for civil society in maintaining welfare. ● Businesses are managed with the involvement of diverse stakeholders, while communities play an active role in bottom-up decision-making processes, including at the European scale.

Source: Own elaboration; European Environment Agency (2022): “Imagining sustainable futures for Europe”, available online: https://www.eea.europa.eu/publications/scenarios-for-a-sustainable-europe-2050
[Accessed 29 June 2022]

Figure 3: Risk Sample, Recommendations and EU Regulation

Risks	Recommendations	EU Regulations Dealing with Risks
High transformational costs and lack of enough resources.	From an institutional perspective, give the adequate support and incentives to the agents in the economic system to overcome this resource scarcity problem, with a special focus on small traditional companies that cannot afford the normally high upfront investments. From a business perspective, demand collectively a solution to governments and institutions.	EU Sustainable Finance Plan; NextGenerationEU
International fragmentation and politicisation of regulations. Increased fragmentation in the EU.	The EU should design and implement a just sustainable transition that takes into account the characteristics of every stakeholder, including the differences among member states. Climate policies should be objective and follow the science. They should be based on long-term political consensus and take into account different views.	Fit For 55; Corporate Sustainability Reporting Directive (CSRD)
Lack of a universal definition of sustainability, resulting in difficulties to measure it.	From an institutional perspective, a further alignment of international organisations and countries, as the EU is currently doing with the UN criteria.	EU Taxonomy; Corporate Sustainability Reporting Directive (CSRD)
Lack of focus on the social dimension of sustainability.	EU institutions should focus avoid a "Carbon Tunnel Vision" and develop other dimensions of sustainability such as the Social Agenda, to complement the existing and more developed Green Agenda. All the productive, economic and social systems must be balanced and included in the Sustainable Transition.	NextGenerationEU; EU Taxonomy
Lack of incentives.	The EU could take decisions that impact more effectively in business behaviours, such as taxes, restrictions or subsidies.	EU Sustainable Finance Plan; Fit For 55
Lack of indicators of development that include sustainability.	Boost a redefinition of economic performance that includes a sustainability component through: (1) the encouragement of sustainable investments; (2) the support of market trends that create a synergy between innovation and sustainability, reflected in the existing demand; (3) the adaptation of fiscal and monetary policies, and welfare institutions; (4) and the use of KPIs that take into account ESG criteria to measure economic performance.	Corporate Sustainability Reporting Directive (CSRD); EU Taxonomy
Lack of knowledge of the regulations and policies.	From an institutional perspective, an effective communication strategy should be developed to make information accessible. Plus, sustainability should be integrated in the educational curriculum.	Fit For 55; NextGenerationEU

Risks	Recommendations	EU Regulations Dealing with Risks
Scarcity of green skills.	EU institutions must support labour organisations, education institutions and public authorities to develop green skills, through: (1) promoting green jobs; (2) addressing worker training and reskilling; (3) anticipating future transformations; (4) and incentivizing companies to transform traditional CSR towards more holistic ESG.	NextGenerationEU
Unethical practices and greenwashing.	EU institutions could advance further in requiring companies to disclose information that include the impact of their activity in the environment.	Corporate Sustainability Reporting Directive (CSRD); EU Taxonomy; EU Green Bonds Standards

Source: Own elaboration

APPENDIX

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