TAB 12

OUR COMMON FUTURE

THE WORLD COMMISSION ON ENVIRONMENT AND DEVELOPMENT

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disposal of toxic substances. This should normally be done at the national level, with local governments being empowered to exceed, but not to lower, national norms. In preparing environmental regulations, it is important that flexible systems are adopted without specifying a particular process or technology and recognizing that governments differ greatly in their capacity to formulate legal standards and enforce them.

Regulations to control the impacts of industrial activity across national boundaries and on the international commons are also needed. Existing or future international conventions dealing with transfrontier pollution or management of shared natural resources should enshrine certain key principles:

- the responsibility of every state not to harm the health and environment of other nations,
- liability and compensation for any damage caused by transfrontier pollution, and
- equal right of access to remedial measures by all parties concerned.

Make More Effective Use of Economic Instruments

Pollution is a form of waste, and a symptom of inefficiency in industrial production. When industries recognize pollution as a cost, they are sometimes motivated to make investments in improved products and processes to increase efficiency and hence to reduce the pollution and waste they generate, particularly when there are economic incentives to do so. It largely depends on whether such investments will increase their economic performance.

But there are limits to what society can expect industry operating in competition with other industries to do voluntarily. Regulations imposing uniform performance standards are essential to ensure that industry makes the investments necessary to reduce pollution and waste and to enable them to compete on an equal footing.

Air and water have traditionally been regarded as 'free goods', but the enormous costs to society of past and present pollution show that they are not free. The environmental costs of economic activity are not encountered until the assimilative capacity of the environment has been exceeded. Beyond that point, they cannot be avoided. They will be paid. The policy question is how and by whom they will be paid, not whether. Basically, there are only two ways. The costs can be 'externalized'—that is, transferred to various segments of the community in the form of damage costs to human health, property, and ecosystems. Or they can 'internalized'—paid by the enterprise.

'We move towards attacking the sources and not the effects. But we also meet environmental questions in our markets, among our own employees and in our local environment. This definitely provides experiences that underline the need for a more complete and comprehensive thinking about the systems of which environment becomes an integral part. We also, as industry, meet the problems of international relations and environment, unfortunately very often in the way of hidden trade barriers or difficulties in co-operation between authorities.'

Rolf Marstrander
Director, Environment Affairs, Norsk Hydro
WCED Public Hearing, Oslo, 24-25 June 1985

The enterprise may invest in measures to prevent the damages and, if the market for its product allows, pass the costs along to the consumer. Or it may invest in measures to restore unavoidable damage—replanting forests, restocking fish, rehabilitating land after mining. Or it may compensate victims of health and property damage. In these cases, too, the costs may be passed on to the consumer.

Enterprises may be encouraged to invest in preventive, restorative, or compensatory measures with subsidies of various kinds. Indeed, in most industrialized and many developing countries, subsidies are a common way of encouraging companies to invest in measures needed to prevent external damage. But in this case, of course, it is the taxpayer who pays, rather than the consumer of the product. Moreover, if the subsidies are large and paid to industries operating in an international market, they can lead to trade distortions and should be avoided.

In 1972, the member countries of OECD agreed to base their environmental policies on a Polluter Pays Principle (PPP).[30] Essentially an economic efficiency measure, PPP is intended to encourage industries to internalize environmental costs and reflect them in the prices of products. At the same time, state regulations in Council for Mutual Economic Assistance countries are carried out through government bodies that allow environmental concerns to be taken into account.

In the case of OECD, the guidelines on PPP were intended to discourage subsidies that could lead to distortions in trade. Countries agreed to phase out the use of subsidies over varying periods of time. (See Chapter 3 for the application of PPP to international trade and investment.)

Incentives to reduce pollution can be enhanced by other measures.

Energy and water pricing policies, for example, can push industries to consume less. Product redesign and technological innovations leading to safer products, more efficient processes, and recycling of raw materials can also be promoted by a more effective, integrated use of economic incentives and disincentives, such as investment tax breaks, low-interest loans, depreciation allowances, pollution or waste charges, and non-compliance fees.

Sometimes the way in which other policy objectives are promoted unintentionally reduces the effectiveness of environmental programmes. For example, subsidies on raw materials or water supply or energy to promote the development of industry in remote areas may well dilute the pressure to conserve resources. Governments should examine whether existing economic policies, instruments, or subsidies provided to various industry-based programmes and projects contribute effectively to the promotion of environmentally sound and resource-efficient practices.

Broaden Environmental Assessments

An increasing number of countries require that certain major investments be subject to an environmental impact assessment. A broader environmental assessment should be applied not only to products and projects, but also to policies and programmes, especially major macroeconomic, finance, and sectoral policies that induce significant impacts on the environment.

Many developing countries, particularly in Asia and Latin America, have adopted systems for environmental impact assessment. But the lack of institutional capacity and skilled personnel mean that these are often conducted by outside consultants, without quality checks. In some cases, government authorities would benefit from a second opinion on the environmental documentation they receive. Interested governments should create an independent international assessment body to help developing countries, upon request, evaluate the environmental impact and sustainability of planned development projects.

Encourage Action by Industry

Industry's response to pollution and resource degradation has not been and should not be limited to compliance with regulations. It should accept a broad sense of social responsibility and ensure an awareness of environmental considerations at all levels. Towards this end, all industrial enterprises, trade associations, and labour unions