

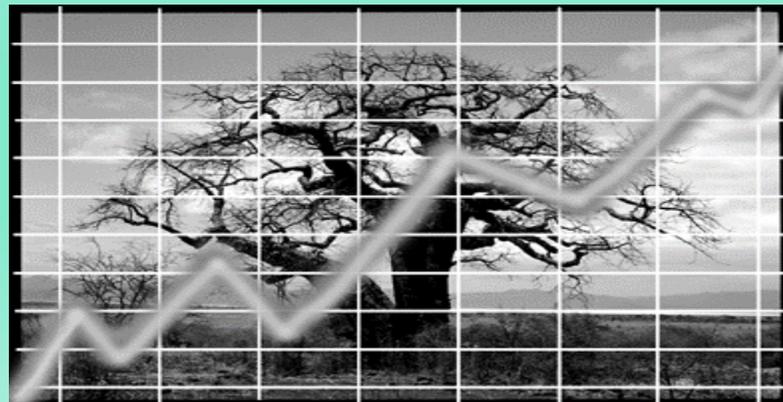
Environmental regulation and growth: Economic impact and Brexit perspectives

Envecon

**Session 5: Environmental policy post Brexit
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Outline

- Economic chapter in book on environmental regulation
- Economic impacts of environmental regulation
 - Myths
 - Porter hypothesis
- Developments in European environmental regulations
- History of the WFD – the ‘English’ Directive
- Best practice principles for improving regulations’ economic impacts – how does WFD fare
- Implications of Brexit for the water sector
- Conclusions on WFD and Brexit

Developments in Environmental Regulation

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See <https://www.palgrave.com/gb/book/9783319619361#aboutBook>

HM Treasury's Framework for raising productivity and sustainable economic growth

Impacts on:

1. **Business costs and investments**
2. Skills and human capital
3. Infrastructure
4. Technical change and innovation
5. Flexible, fair markets and competition

Impacts on competitiveness = combined effects on 1- 5

Uncertainties regarding environmental regulation

Costs of water policies and regulations for water industry & agriculture

Figure 2.1: Direct Costs to Business of Defra's Regulations by Policy Area, 2012 (£m, %)

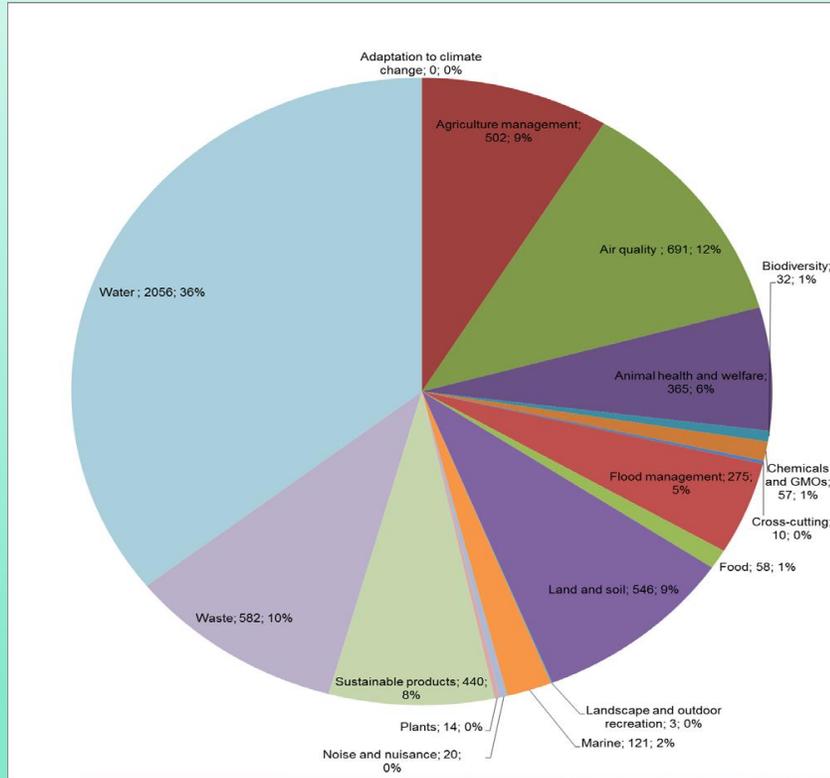
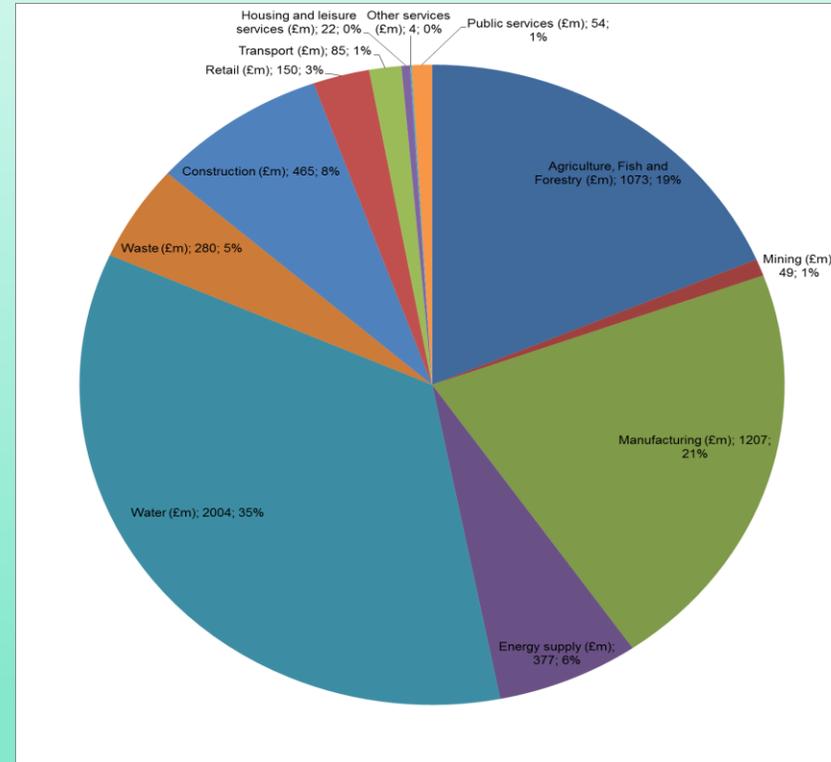


Figure 2.2: Direct Costs to Business of Defra's Regulations by Industry Sector, 2012 (£m, %)



Source: Defra (2015). Emerging Findings from Defra's Regulation Assessment, First update covering 2012

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Myths and false claims

1. Environmental regulations increase growth (eg through growth of EGSS)
 - a) But opportunity costs for business (see earlier)
2. Over-estimation ex ante of costs and benefits of proposed regulations
 - US: 34 case studies by Dick Morgenstern (Resources for the Future)
 - UK: Air pollution controls
 - PR04: EA and Ofwat scrutiny of Water industry draft business plans reduced the companies' cost estimates by 40%
 - **Need empirical analysis of actual vs ex ante costs for regulations (eg where > 5% of industry's turnover.)**
3. Porter hypothesis
 - Used by NGOs to support claims 1
 - But misquoted
 - Actually says “**properly designed** environmental standards (can) trigger innovation that may partially or more than fully **offset** the costs of complying”
 - Admits environmental regs can entail high costs – as in 1a

Overall conclusion on impacts of environmental regulation on economic growth

Available evidence is contested and not clear cut

But two firm conclusions:

1. Defra review: Not **significant** adverse economic impacts
 - Gross costs are just 0.16% of T/O of all businesses; 0.2% for mfr industry
 2. Need better environmental regulatory *'processes'* to reduce costs and any adverse economic impacts and enhance benefits and positive impacts on GESS.
 - ❖ Porter's real conclusion
- **Developed principles for how to improve impacts of environmental regulations on sustainable economic growth**
- Based on Porter, best practice guidance (Defra, Cabinet Office, EC)

Developments in European Environmental regulations: Brexit myths and fake news

1. Considerable UK influence: eg
 - Integrated Pollution Prevention and Control (IPPC) Directive (now Industrial Emissions Directive) based on UK's Integrated pollution control (IPC) policy for regulation of major installations
 - Water Framework Directive (WFD) (see later)
2. EU environmental regs are now mostly *framework* directives
 - Less prescriptive; allow for flexible implementation by countries
 - Allow for exemptions if disproportionately costly
 - See later regarding WFD

History of European water policies and WFD

- 1970s: Uniform Emissions Standards (UES) – Germany
- vs Environmental Quality Objectives (EQO) – UK
- Urban Waste Water Treatment Directive – in line with UES
- 2000 Developed WFD - UK driver and embodies EQO
- Another prime example of UK positively influencing EU policies
- WFD implementation
 - 2013 Defra Catchment based approach for RBMP2

WFD vs best practice principles for improving regulations' economic impacts

- Developed in close collaboration with other EU countries
 - potential exports for UK environmental services (rather than infrastructure)
- Focus on environmental outcomes
- Aims to achieve ambitious objectives geared to state of water bodies
- Allows flexibility for Member States to draw up River Basin Management Plans to achieve the objectives and desired outcomes
- Achieve significant environmental benefits
- RBMP2: Benefits (pv 22.bn) > Costs (pv 17.5bn). BCR = 1.3
- Explicitly allows for exemptions if some measures are disproportionately expensive
 - in RBMPs and also Art 16 re Priority Hazardous Substances

WFD vs best practice principles for improving regulations' economic impacts

- **Transparency.** Member States have to set out the measures in their RBMPs and their costs and benefits and the extent to which they cover the full costs of water services
 - **Have well defined phase-in periods – 6 year cycles**
- ⇒ **WFD regulatory process more stable and predictable**
- Article 14 - encourages active involvement of interested parties
 - Involved businesses, environmental NGOs and stakeholders
 - Need more collaboration and less adversarial litigation
 - **Market incentives.** Article 9: member states to report on extent water prices cover financial, environmental and resource costs of water services (ie reduce water subsidies).

Brexiters arguments vs WFD

A. Brexit > lower energy costs if not s.t EU renewable energy targets.

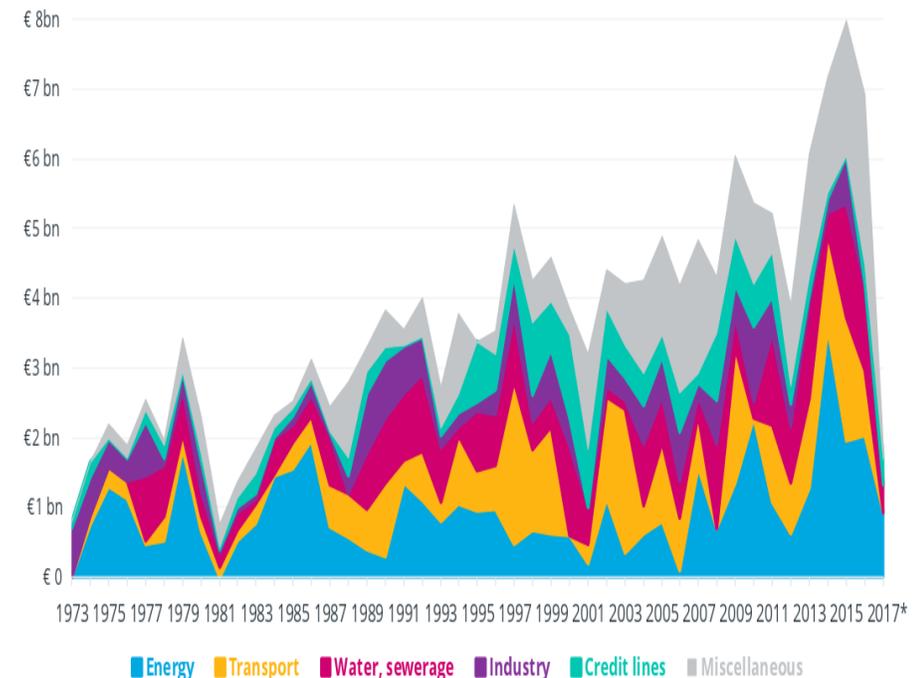
But:

- *Fall in £ => higher cost of energy imports.*
- *Weaken cross-border energy market and access (eg channel interconnector) to lower cost energy in Europe*
- *? Rise in water industry's cost of capital*
 - *Loss of EIB funding => rise in cost of capital*

B. Brexit enable water sector to hire skilled labour outside EU

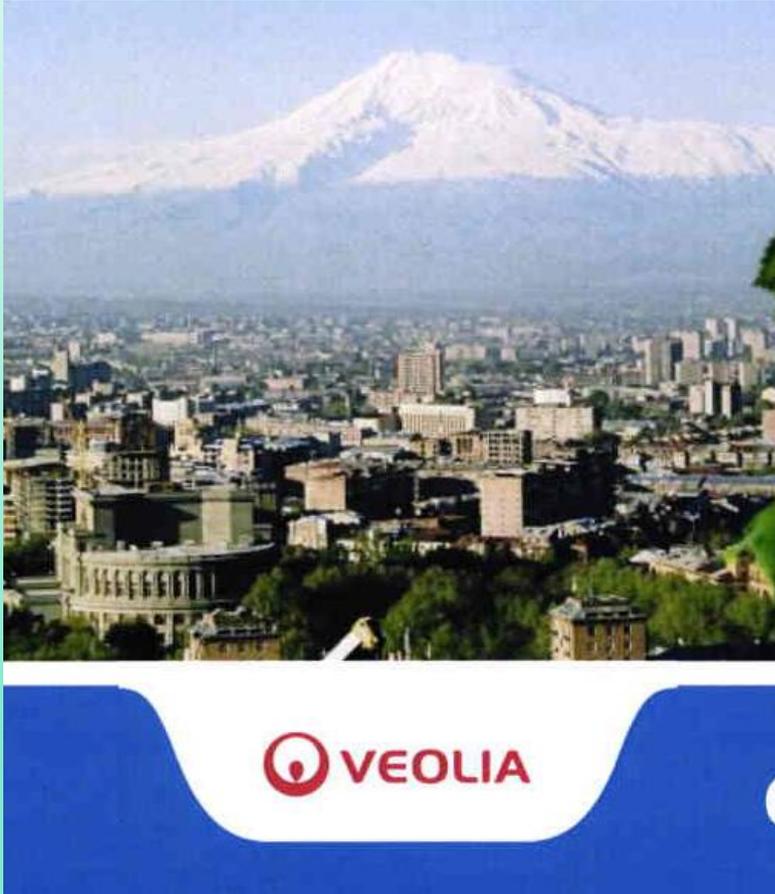
- *But still need access to EU skilled labour*

European Investment Bank finance for UK projects annually by sector, 1973-2017
Adjusted for inflation, 2016 values



Source: Institute for Government analysis of European Investment Bank, Projects financed: multi-criteria list, 2017

Brexiters arguments vs WFD



C. Brexit => opportunities for UK export water infrastructure outside EU

- *But market is sewn up by French and German companies*
- *Main potential for UK is services for Integrated water mgt.*
- *But exiting the EU and WFD would constrain ability to exploit this.*

D. Brexit => flexibility to decide what regulations are best for the UK

- *Agree WFD 2027 target too costly or not technically feasible.*
But we could have achieved this without Brexit.

Conclusions

- No evidence of **significant** adverse economic impacts of environmental regulations
 - < adverse impacts on business of border controls and immigration controls
- Need better environmental regulatory '**processes**' to reduce costs and any adverse economic impacts and enhance benefits
 - Principles for how to improve impacts on sustainable economic growth
 - WFD process fares well

Re Brexit, regulatory “alignment” and the WFD

- Strong UK influence in recent development of environmental regs, esp WFD
- Convert GES 2027 target to ‘aim to achieve’ in subsequent RBMPs
- Retain WFD with its essentially rational ‘English’ processes
- EU WFD => UK WFD or EW WFD

Thank you

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