CONTRIBUTION TO EUROPEAN BUSINESS SUMMIT (6-7 JUNE 2002)
MARKET INSTRUMENTS FOR SUSTAINABLE DEVELOPMENT

EU environmental policy has developed from a 'command and control' approach, through the Commission 'new approach' that defines environmental quality emissions standards for the single market, and leaves open choice of technologies to meet them.

But, the use of the more restrictive instruments is running into increasing problems of complexity and delay that hinder effective implementation, monitoring and control. In this context, current public debate focuses heavily (see Chart below) on so-called "market instruments" [a] acting to :

- send economic signals to market operators: tax incentives, taxes and charges, and tradable emission permit schemes ("economic instruments").

- mobilise the innovation and managerial capacities of market operators (agreements between public authorities and industry, industry self-commitments, industry generated norms and standards).

Agreements and self-commitments by business & industry have become increasingly important parts of policy frameworks in some Member States, and so their potential should be further explored to help meet Sustainable Development targets at EU level.

UNICE is willing to play its role in developing well-designed economic instruments capable of delivering environmental progress at lower cost than traditional "command and control" regulation.

Market instruments are potentially powerful, so need to be designed and used with care. Used carelessly, they can cause trade barriers that will distort the single market. The following criteria should be used to test such market instruments:

1. Environmental effectiveness and economic efficiency criteria:
- Aimed at sound and transparent environmental objectives
- Effective in achieving the environmental targets
- Economically efficient, based on cost-benefit analysis
- Easily introduced, and then adjusted on the basis of careful monitoring.

2. Policy coherence criteria:
- Consistent with the internal market, so not raising barriers to trade
- Compatible with the principle of balance inherent in Sustainable Development
- Add value to other Community and Member State policies and instruments.

3. Subject to Regulatory or Sustainability Impact Assessment:

- Impact assessment must be an integral part of designing a major policy proposal
- With particular focus on the competitiveness of European business and industry, which should not be weakened

a) Note : the inclusion of ecological taxes in the family of "market instruments" represents a significant simplification of language, since influencing production and consumption with taxes often involves concepts far removed from the philosophy of market economy.

UNICE makes the following recommendations for the future direction of EU policies:

1. The serious weaknesses that have characterised the design and implementation of environmental taxes by member states prompt extreme care and rigour in considering their further use at EU level.

2. Priority needs to be given to the options of self-regulation and agreements, because of their potential for efficient and early impact, and a capacity to motivate

3. Emissions trading can help in making most cost-effective emissions reductions, but must be implemented so that it is coherent with existing EU and national strategies.

4. Regulatory or Sustainability Impact Assessment is an essential condition to ensure that major EU policy proposals are developed on a sound basis, with stakeholders consulted, and engaging the main EU institutions. An action programme is needed to commit these institutions to common goals of regulatory quality, following agreed administrative procedures, to undertake systematic impact assessments. UNICE urges that such an action programme is established as rapidly as possible!

CHART: EU REGULATORY APPROACHES (*)

BASIC APPROACH ➔ REGULATORY REGIME ↓	REDUCING EMISSIONS		
	SET ENVIRONMENT QUALITY / EMISSION STANDARDS / LIMITS	SET THE COST OF EMISSIONS AS A TAX, LEVY OR CHARGE	SET THE TOTAL VOLUME OF EMISSIONS
REGULATION:	Regulated standards prescribing technology e.g. IPPC and BAT	Environmental taxes, levies or charges that are imposed, e.g. taxing energy products	Mandatory emissions trading with allowances set to meet regulated targets
FRAMEWORK REGULATION (CO- REGULATION):	Agreed definition of environmental objectives, leaving implementation to be elaborated	Tax differentials agreed to encourage meeting targets	Emission trading with voluntary participation, to help meet agreed targets
SELF-REGULATION / AGREEMENTS:	Industry commits to targets recognised by the public authorities		Business emissions trading initiatives to help meet agreed targets

(*) The boxes present examples of instruments. The boxes with a bold border indicate the scope of "market instruments".