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MARKET INSTRUMENTS FOR SUSTAINABLE DEVELOPMENT

EU environmental policy has developed from a "command and control" approach, through the Commission's "new approach" that defines environmental quality emissions standards for the single market, but leaves open the choice of technologies to meet them. Now the Commission aims to develop quicker and more flexible options by proposing self-regulation and so-called co-regulation.

This is because 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" * acting to:

- give clear signals to market operators by tax incentives, taxes and charges, and tradable emission permit schemes ("economic instruments")
- mobilise the innovative 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 and industry have become increasingly important parts of policy frameworks in some Member States, 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.

* 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.

DESIGN AND TEST CRITERIA

Market instruments are potentially powerful, so need to be designed and used with care. Used carelessly, they can cause negative impacts on international competitiveness as well as trade barriers that will distort the single market. The following criteria should be used to test such market instruments as part of a comprehensive impact assessment:

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
- Reflecting the shared responsibility concept.

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 international competitiveness of European business and industry, with an aim of strengthening it.

MARKET INSTRUMENTS AND THE GOVERNANCE DEBATE

The chart below shows examples of policy instruments. The boxes in dark blue indicate the scope of "market instruments" in the public policy debate.

REGULATORY REGIMES	BASIC APPROACHES FOR REDUCING EMISSIONS		
	Set environmental quality or emission standards	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 with industry to encourage meeting targets	Emissions trading with voluntary industry 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

UNICE RECOMMENDATIONS FOR THE FUTURE DIRECTION OF EU POLICIES:

1. The serious weaknesses and counterproductive impact that have characterised the design and implementation of environmental taxes by Member States prompt extreme care and rigour in considering any possible 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 business and industry.
3. Emissions trading can help in making most the cost-effective emissions reductions, but must be implemented in a way that is coherent with existing EU and national strategies.
4. Regulatory or Sustainability Impact Assessment based on sound data and analysis is an essential way of ensuring that major EU policy proposals are developed on a firm basis, with stakeholders consulted, and engaging the main EU institutions. An action programme is needed to commit these institutions to adopting common goals of regulatory quality and to undertaking systematic impact assessments reflecting the economic, social and environmental dimensions of sustainable development. The Commission's June 2002 Action Plan on better regulation is a positive move in this direction. UNICE calls for rapid implementation of this plan!

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