

# ALDERSGATE GROUP

## **GREEN FOUNDATIONS: BETTER REGULATION AND A HEALTHY ENVIRONMENT FOR GROWTH AND JOBS**

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# Foreword

The increasing globalisation of the world's economy has raised concern about the ability of UK industry to compete in world markets. In particular, it has led to demands that the burdens imposed on business by government regulations need to be reduced to ensure a level playing field with rising competitors in Asia and the Far East. Environmental regulations set at both UK and EU levels have been a particular target.

Nobody would argue against striving for 'better regulation' if this means regulation that is well-designed, uses appropriate policy instruments, and meets its essential objectives at least cost to industry and the public purse. But so often, demands for better regulation are actually aimed at reducing environmental standards themselves, on the spurious grounds that they are the enemy of competitiveness.

We, the Aldersgate Group, are convinced that there is no inherent contradiction between regulating for high environmental standards at the same time as maintaining economic competitiveness and stimulating wealth creation. Quite the reverse: no economic policy which sacrifices environmental quality can succeed in the long term. We have now entered an era where continued economic growth depends more and more on the efficient use of increasingly scarce resources, and on the continued ability of the biosphere to deal with the pollution we create. 'Smart' regulation will not only help to support the transition to an eco-efficient economy in the longer term – the 'green foundations' essential to underpin growth and jobs in the future – but also holds out more immediate business opportunities.

So the purpose of this report is to set the picture straight. It presents some key, evidence-based messages showing that future economic prosperity and high environmental and social standards must go hand in hand.

A handwritten signature in black ink, appearing to read 'Adrian Wilkes', with a long horizontal flourish extending to the right.

**Adrian Wilkes**

Chair, Aldersgate Group

# Introduction

The UK is one of the leading advocates of the better regulation agenda. This is aimed at reducing regulatory burdens on UK businesses by cutting unnecessary red tape and financial costs, thus removing obstacles to industrial efficiency, productivity and profitability. Regulatory reforms in the UK mirror similar initiatives in the EU in the framework of the Lisbon Strategy, launched in 2001. In March 2005, the Lisbon Strategy was re-launched with a sharper focus on the key priorities of growth and jobs.

While stressing that inefficient regulations can impose a significant burden on business, the UK's Lisbon National Reform Programme also points out that 'Effective and well-focused regulation can play a vital role in correcting market failures, promoting fairness and increasing competition. Society expects government to provide protection for the general public, consumers and employees consistent with the best international standards, and these expectations grow over time'<sup>1</sup>. In relation to the environment, this means that it is important to ensure that high environmental standards in the UK and the EU are not jeopardised by the search for reductions in regulatory burdens. There has been a tendency for some industrial representatives to interpret 'better regulation' as 'de-regulation' – regardless of the longer-term costs this can impose both on the environment and on growth.

The Aldersgate Group provides a focal point for those who believe that, far from undermining the UK economy, high environmental standards provide the 'green foundations' which are essential for the UK's long-term economic competitiveness and a high quality of life. The Group – which brings together a broad range of players, including environmental agencies, NGOs, think tanks and industry representatives – has produced this report with three aims in mind.

- To show that there is a broad range of actors in the UK who believe that the better regulation debate needs to be better informed, and based on the evidence.
- To raise awareness of a number of key messages and present the evidence which supports them.
- To press the case for better, smarter regulation which will help manage the transition to a more eco-efficient economy in the UK and beyond.

## The Aldersgate Group believes:

- 1 Our long-term economic success depends on a healthy environment and the sustainable use of natural resources.
- 2 More immediately, at a company level, good environmental performance and efficient use of resources make good business sense.
- 3 Environmental regulation presents new business and employment opportunities, not just in the high-growth environment sector, but in other sectors too.
- 4 Policy appraisals and regulatory impact assessments should be balanced and objective. They should neither undervalue the benefits nor overplay the costs of regulations.
- 5 Better regulation means having a regulatory environment which is proportional, accountable, consistent, transparent, targeted, efficient and effective.

<sup>1</sup>  
HM Treasury (October 2005)  
*Lisbon Strategy for Jobs  
and Growth: UK National  
Reform Programme*, p.20.

# 1 Our long-term economic success depends on a healthy environment and the sustainable use of natural resources.

A healthy environment and the sustainable use of natural resources are at the very core of long-term economic sustainability. With the increasing priority given to boosting economic growth and creating new jobs, high environmental standards will be essential to sustain growth and high employment.

Our economy depends on the availability of natural resources to provide the basic inputs to create goods and services; a healthy workforce; and functioning ecosystems that regulate the climate, absorb pollution or regulate flooding. But we can't take these things for granted. Rapid economic growth driven by accelerating technological change over the past half century has brought the world's economy up against global ecological constraints, such as energy shortages, climate impacts and threats to biodiversity.

According to WWF<sup>2</sup>, in 2001 the resources and space we currently use in the UK for the production of goods and services, waste disposal and the provision of major infrastructures – our 'ecological footprint' – was far in excess of our own physical capacity to provide them. If this level of consumption was matched worldwide, we would need the resources of two planets to meet our demands – and three at the rate of US consumption. This overshoot means that we are spending nature's capital faster than it is being regenerated.

Selling the family silver in this way cannot continue indefinitely. UK Chancellor of the Exchequer Gordon Brown has said: 'Environmental sustainability is not an option – it is a necessity. For economies to flourish, for global poverty to be banished, for the well-being of the world's people to be enhanced – not just in this generation but in succeeding generations – we have a compelling and ever more urgent duty of stewardship to take care of the natural environment and resources on which our economic activity and social fabric depends'<sup>3</sup>.

To reduce it to plain self-interest, in a world of rising energy costs and increasingly scarce raw materials, our international economic standing will in future depend on maximising resource efficiency just as much as on boosting labour productivity. Increasingly, improved environmental performance will need to go hand in hand with improved economic performance.

Economic and political systems will one way or another adapt to growing resource constraints and the challenges of a changing climate. This could come through large catastrophic shocks over which we have no control. According to the World Bank, the number of natural disasters related to environmental degradation has increased significantly over the last three decades. Approximately 2.6 billion people have been affected by natural disasters in the past 10 years, compared with 1.6 billion in the previous decade, with material losses 15 times greater than in the 1950s<sup>4</sup>.

The alternative is seeking to manage the transition through well-designed and targeted public policy interventions. Far from putting an obstacle in the way of our ability to compete on a global market, environmental regulation is essential for our continued economic success. And so what we need is a range of well-designed environmental measures to smooth the path towards a more sustainable economy – the 'green foundations' needed to underpin future growth and jobs.

2  
WWF European Office  
(June 2005) *Europe 2005: The Ecological Footprint*.

3  
Gordon Brown (20 April 2005) *Speech to the United Nations*, New York.

4  
Christopher Swann (22 April 2006) *Disasters set off by Severe Weather Show Sharp Rise*, FT.com, Washington.

## 2 At the company level, good environmental performance and efficient resource use make good business sense.

In addition to longer-term global considerations, addressing environmental performance brings more immediate business benefits. The role of government in providing a clear framework to do so is crucial.

‘Becoming more efficient makes good business sense,’ says the World Business Council for Sustainable Development<sup>5</sup>. Chairman and Chief Executive Officer of General Electric, Jeff Immelt, also observes: ‘Europe today is the major force for environmental innovation. We – General Electric – are therefore investing in environmentally cleaner technology because it will increase our revenue, our value and our profits [...] Not because it is trendy or moral, but because it will accelerate our growth and make us more competitive’<sup>6</sup>.

Achieving high environmental standards across the UK would produce significant cost savings and consequently boost competitiveness. Research has identified that in the UK £2-3 billion savings could be made in annual operating costs by investing in best practice manufacturing techniques for waste minimisation<sup>7</sup>. Industry could also save £1.8 billion through energy efficiency<sup>8</sup>; and UK companies could cut water costs by 30% based on some simple and inexpensive measures<sup>9</sup>.

Environmental regulations have played a key role in stimulating such resource efficiency through reducing energy use and waste production<sup>10</sup>. A recent global review of competitiveness by Professors Daniel Esty and Michael Porter from Yale and Harvard Business School found that ‘economic competitiveness and environmental performance are compatible, if not mutually reinforcing. Low pollution and efficient energy use are a sign of the highly productive use of resources. Policies that stimulate improvements in environmental quality, then, may actually foster improvements in competitiveness that underpin a rising standard of living in the long run’<sup>11</sup>.

A good example is the introduction in the UK in April 2001 of the Climate Change Levy. The levy provided the incentive – especially for high energy users – to look at energy use across their operations. A survey of businesses completed eighteen months after the introduction of the levy, found that it had raised awareness amongst senior managers about the need to address energy use and greenhouse gas emissions; helped change energy management policies; and increased the use of renewables<sup>12</sup>. Crucially the survey found that though these changes had been considered before, it was the financial incentive brought by the levy that provided the immediate stimulus to the improvements.

Companies with a good environmental record and low environmental risks also benefit from better access to capital and lower insurance premiums than those with a poor record. Unlawful environmental conduct is considered a financial risk factor, and several banks state that they fear that a company’s unlawful or indefensible environmental conduct will hurt the image of the creditor<sup>13</sup>. The Socially Responsible Investment (SRI) Team from Henderson Global Investors reviewed the social responsibility practices of leading UK food retailers in 2005. As a result, just two – Marks and Spencer and Sainsbury – will continue to be approved for investment by Henderson SRI funds in the UK.

5 World Business Council for Sustainable Development (Aug 2000) *Eco-efficiency, Creating More Value with Less Impact*.

6 Cited by Stavros Dimas, Member of the European Commission responsible for Environment (2005) *Sustainable Development and Competitiveness*, speech to the EPC Meeting, Brussels, 6 October.

7 Cambridge Econometrics & AEA Technology (2003) *The Benefits of Greener Business*.

8 Defra (March 2005) *£284m Programme Launched To Help Cut Business Waste And Improve Resource Efficiency*; [www.defra.gov.uk/news/2005/050330a.htm](http://www.defra.gov.uk/news/2005/050330a.htm)

9 UK’s ‘Desert State’ (Aug 2005) Envirowise; [www.envirowise.gov.uk/page.aspx?o=166808](http://www.envirowise.gov.uk/page.aspx?o=166808)

10 Environment Agency (2005) *Spotlight on Business: Environmental Performance in 2004 – Doing the Right Thing*.

11 Daniel Esty and Michael Porter (2001) *Ranking National Environmental Regulation and Performance: a Leading Indicator of Future Competitiveness? The Global Competitiveness Report 2001-2002*, OUP, New York, 2001.

12 Ekins, P; Monkhouse, C; Skinner, I and Willis, R (November 2002) *Next Steps for Energy Taxation: A Survey of Business Views*, Green Alliance/Policy Studies Institute.

13 Miloprojekt No 836 (2003) *Environmentally Sustainable Markets: The Role of Financial Actors*.

### 3 Environmental regulation presents business and employment opportunities, not just in the high-growth environment sector, but in other sectors too.

There is a growing body of evidence to show that environmental regulation stimulates innovation and presents new business opportunities. In terms of jobs, environmental regulation is likely to have a positive impact, or at worst, be neutral.

Environmental regulation stimulates innovation. This in turn reduces the cost of compliance while delivering a range of wider benefits. According to a recent UK study, 'Well thought out environmental policies provide opportunities for innovation, create new markets and increase competitiveness through greater resource efficiency and new investment opportunities. In this sense environment policies can help achieve the core [EU] Lisbon strategy objectives of more growth and jobs'<sup>14</sup>.

The joint DEFRA/DTI Environmental Industries Unit (EIU) calculated that in 2004 the UK environmental sector:

- had a turnover of £25 billion in 2004 – up from £16 billion in just two years;
- comprised more than 17,000 companies – up from 7,000 over the same period; and
- employed about 400,000 people – up from 170,000<sup>15</sup>.

Between 2000-2004, over £500 million was invested in early stage private environmental goods and services (EGS) companies, and there are now around 26 EGS companies on AIM (part of the London Stock Exchange which gives companies access to the market at an earlier stage of their development). Nearly half of these companies experienced growth of over 40% in the last year, and together they are worth more than £1 billion.

Globally, in the last 10 years the market for environmental goods and services has developed enormously. Though there are issues around data (for example, differences in whether companies define themselves as being in the 'environmental sector'), the world EGS market is clearly emerging as a key business sector for wealth creation. In 2000 it was valued at US\$515 billion, and the UK Chancellor of the Exchequer Gordon Brown recently predicted that 'in 2010 the global environment market – clean energy, waste and water – could be worth almost US\$700 billion – a sector as big as the successful aerospace or pharmaceuticals sectors'<sup>16</sup>.

A good example of a new environment-driven business opportunity is carbon trading, now a high growth commodity market. According to Point Carbon nearly €10 billion (£6.9 billion) was traded in 2005 and that amount is expected to nearly treble to €27 billion in 2006. Thanks in part to the UK creating its own voluntary emissions trading scheme a year before the mandatory EU scheme was introduced, London was an early mover and is now regarded as the hub of the international carbon market. Though the UK scheme was criticised for its emission reduction achievements *vis a vis* cost, the benefits of establishing the trading infrastructure (including the development of verifiers and auditors) and the 'hands on' experience of trading, were considered to outweigh any weaknesses<sup>17</sup>.

While first mover opportunities in this sector are considerable, the government also has a responsibility to boost the market. 'The real driver in this industry is regulation' as evidenced by the Environmental Industries Commission (EIC)<sup>18</sup>. The EIC has noted the example of the 'fridge mountains' experienced in 2002, when delays in implementation resulted in missed opportunities in the waste recycling industry<sup>19</sup>. Instead of developing national solutions, the UK now purchases much of its refrigeration recycling technology from Germany.

Government has a unique and critical role to play in establishing the right policy frameworks with high environmental standards that will stimulate business innovation through improving environmental performance.

14  
Land Use Consultants  
Ltd (Dec 2005)  
*The Environment,  
Economic Growth and  
Competitiveness: The  
Environment as an  
Economic Driver*, a paper  
for the European Regional  
Policy Group, UK.

15  
The Environmental  
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[www.dti.gov.uk/sectors/  
environmental/index.html](http://www.dti.gov.uk/sectors/environmental/index.html)

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Gordon Brown MP,  
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(20 April 2006) *Speech  
to United Nations  
Ambassadors, New York.*

17  
Bowyer, C, Monkhouse,  
C, Skinner, I and Willis, R  
(2004) *Business Action on  
Climate Change: Where Next  
After Emissions Trading?*  
IEEP and Green Alliance.

18  
Environmental Industries  
Commission (April 1996) *The  
World of Opportunities for  
the Environmental Industry.*

19  
Fiona Harvey (10 April 2006)  
*Ministers Urged to Stimulate  
Green Industries, FT.com,  
Washington.*

## 4 Policy appraisals and regulatory impact assessments should be balanced and objective. They should neither undervalue the benefits nor overplay the costs of regulations.

Policy appraisals – or impact assessments – of the costs and benefits of proposed regulations are a key component of better regulation. It is essential that such appraisals are undertaken – but they have often been used to emphasise the costs of regulation to industry while downplaying wider benefits, both economic and environmental. A more balanced and thorough approach to such appraisals would be a major contribution to evidence-based policy-making.

A key component of the better regulation agenda should be the systematic and thorough appraisal of the likely future costs and benefits of proposed regulations. In the UK, the system of Regulatory Impact Assessment (RIA) – introduced in 1997 primarily as a tool for assessing economic impacts on business – was extended in 2004 to take in the wider consideration of environmental, alongside economic and social, impacts. A similar, integrated system of impact assessment had been introduced by the European Commission in 2002.

Good policy appraisal is essential for better regulation – but is it vital that impact assessments are based on reliable data and cover not only costs, but all the benefits as well. A range of recent studies has concluded that in most UK and EU assessments the range of impacts considered is limited, and they downplay the environment in general and environmental benefits in particular. Partly this is because it is hard to place an economic value on the environment, and put a price on many environmental benefits<sup>20</sup>. Impact assessments have also tended to focus on a limited range of economic impacts – mainly short-term costs to industry – while ignoring the economic benefits that can be derived from setting high environmental standards.

A recent study by the UK's National Audit Office of a cross-section of RIAs has highlighted their lack of balance. Five of the ten RIAs examined gave 'poor quality analysis of environmental and social impacts', while eight out of ten exhibited 'some weak elements' in this regard<sup>21</sup>. A review by the Danish Environmental Assessment Institute of 58 European Commission impact assessments showed that over half did not even consider environmental impacts at all<sup>22</sup>.

Apart from limited consideration of environmental impacts, a major weakness in UK RIAs has been the failure to consider adequately the *economic* benefits created by environmental protection measures, as acknowledged in a recent report by the House of Commons Environmental Audit Committee<sup>23</sup>. In particular, not one RIA has ever included an assessment of the impact of an environmental regulation on boosting the UK's environmental technology industry<sup>24</sup>.

20

See for example: Natural England (2002) *Revealing the Value of Nature, working today for nature tomorrow*.

21

National Audit Office (May 2006) *Regulatory Impact Assessments and Sustainable Development – Briefing for the House of Commons Environmental Audit Select Committee*.

22

Environmental Assessment Institute, Denmark (April 2006) *Getting Proportions Right – How Far should EU Impact Assessments Go?*

23

House of Commons Environmental Audit Committee (April 2005) *Pre-Budget 2004 and Budget 2005: Tax, Appraisal and Environment, Recommendation 13, Session 2005-6, HC 261*.

24

Adrian Wilkes (January 2005) *Memorandum of Evidence for the House of Commons Environmental Audit Select Committee's Pre-Budget 2004 Inquiry*.

Other economic benefits of well-designed environmental regulations are often ignored<sup>25</sup>.

- **Improved health.** One significant study by the UK's Environment Department concluded that a 0.751 ug/m<sup>3</sup> reduction in airborne particles from additional measures would lead to a gain of between 278,000 to 508,000 life years for the UK population over the years 2010 – 2110, together with significant savings in health care costs.
- **Improved amenity.** A study for the UK's Environment Department on the impact of the EU's Water Framework Directive concluded that in England and Wales alone amenity benefits could total as much as £1.9 billion. Maximum total benefits amounted to £6.1 billion.
- **Economic benefits to third parties.** Higher environmental standards can reduce the costs of damage to economically important ecosystems, agriculture, forestry and building materials (like stone, rubber and painted surfaces). One UK Government report on the impact of VOC emissions estimated their costs ranged from £170-£354 million a year.

As well as downplaying the economic benefits of environmental regulations, RIAs are often based on exaggerated estimates of costs to business, based on scare stories emanating from industry lobby groups. In 2003, the Confederation of British Industry (CBI) described the EU Directive on Environmental Liability as 'the final nail in the coffin of manufacturing' and initially claimed that the cost to British business would be £1.8 billion. Actual costs have been estimated by DEFRA at almost one hundred times less than this. Moreover, the Hampton Review – a review for HM Treasury on reducing administrative burdens – reported that a firm with over 50 employees would spend only two hours per employee per month on government regulation and paperwork – and only a small proportion of this is likely to be in respect of environmental regulation<sup>26</sup>. At EU level, more than 30 additional impact assessments of the Commission's REACH proposal on the registration of chemicals were undertaken by industry representatives. The Commission's Vice-President for Industry and Enterprise, Günter Verheugen, concluded that most of their cost estimates were unreliable.

So, impact assessments as currently conducted in the UK and the EU give an incomplete picture of all relevant impacts, and undermine a key principle of better regulation – that policy-making should be evidence-based. In particular, assessments should take account of all the economic benefits that flow from high environmental standards, not least the boost they can give to competitiveness through increased resource productivity and eco-innovation. They should also take full account of the often considerable costs of inaction, which tend to be ignored. Scare stories on the costs of regulation should be checked against independent *ex post* studies of the actual costs and benefits of implementing higher environmental standards. The UK's National Audit Office has recommended that RIAs could be improved through better training and guidance for the officials undertaking them, with a more hands-on quality control role for the Better Regulation Executive. In this way, some of the distortions relating to the alleged high costs and low benefits of environmental regulations could be ironed out.

25  
Adrian Wilkes (January 2005) *op cit*.

26  
Philip Hampton (March 2005) *The Hampton Review – Final Report: Reducing Administrative Burdens: Effective Inspection and Enforcement*, HM Treasury.

## 5 Better regulation means having a regulatory environment which is proportionate, accountable, consistent, transparent, targeted, efficient and effective.

27  
Roberts, Michael (2005)  
*Wrestling Regulation*  
Environment Business,  
Issue 103, pp16-17,  
February 2005.

New kinds of environmental challenges require a more sophisticated approach to environmental regulation – one that selects the most appropriate instruments to achieve essential environmental objectives at minimum cost to businesses and public authorities.

The earliest environmental regulations were largely about protecting the public from harmful emissions into air and water from point sources. Their focus on banning or controlling certain activities meant that regulation then could be relatively unsophisticated. Now, however, new types of environmental threats have given environmental regulation a more positive purpose – that is, the encouragement of business and consumers to use resources more efficiently. This requires much greater attention to the design of environmental measures – making sure that the most cost-effective choices are made in selecting regulatory approaches. These may include alternatives to traditional regulation, such as voluntary agreements, or ‘market-based’ instruments such as taxes, charges, subsidies or tradable permits. ‘Responsible businesses readily recognise that regulation (applied properly) can create a level playing field, stimulate innovation and deliver the environmental benefits valued by society as a whole at reasonable cost’ says CBI’s Director of Business Environment, Michael Roberts. ‘They also recognise that other forms of intervention – such as market based instruments or taxes – may be both economically and environmentally preferable to classic forms of regulation<sup>27</sup>’.

There is no doubt that some regulations are outdated, badly designed, or poorly applied. Among the options for improvement are simplifying regulations into a more manageable and mutually-consistent form, or reducing the burden of paperwork and the time taken dealing with information requests. Measures such as one-stop-shops (electronic and physical), and the simplification of permitting and licensing procedures can both help ease burdens on business. And a more ‘risk-based’ approach to regulating industry, putting the focus on those companies where the risks are highest, can reward ‘good’ performers with less supervision and control.

Better regulation means having a regulatory environment which is proportionate, accountable, consistent, transparent, targeted, efficient and effective. It should aim to deliver high environmental standards providing the maximum stimulus to innovation and the creation of business opportunities, while minimising the administrative burdens of complying with them.

## Conclusion

The Aldersgate Group believes that the better regulation agenda should be about creating a regulatory environment where businesses can thrive and innovate, while at the same time safeguarding the environmental resources on which growth is based, and the rights of citizens to live in a healthy environment.

We wish to engage actively with government and other key decision-makers in contributing to the future development of UK economic, environment and sectoral policies, by presenting objective evidence based on the diverse experience of our members.

Several major UK policy reviews are due to report by the end of 2006, including the Davidson Review on the 'gold-plating' and over-implementation of EU legislation; the Stern Review on the economic challenges of climate change and their implications for UK and global policies; and the Energy Review on the measures needed by 2020 to respond to global warming. The Aldersgate Group will wish to test the conclusions of major reviews like this against the five key arguments that we have set out in this report.

In this way, we will help ensure that the UK can continue to show leadership in the global debate on better regulation.

## Acknowledgements

The Institute for European Environmental Policy was commissioned to write this report on behalf of the Aldersgate Group.

The Aldersgate Group would like to extend its thanks to the following people and organisations for their contribution to the report.

Dinah Nichols  
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SITA UK

## Membership of the Aldersgate Group

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