

Key criteria concerning the choice of environmental policy instruments

Environmental policies can be implemented through a variety of policy instruments. But none of the instruments is a “magic bullet”. Some instruments will be better adapted to specific environmental problems and economic circumstances. The choice of environmental policy instruments should be based on a number of different criteria. As an example, 12 key criteria are represented here (cf. BARDE, 2000; PERMAN et al., 2003):

1. Environmental effectiveness

The most important criterion is to what extent policy instruments will achieve environmental objectives. Certain instruments may be better adapted to specific environmental purposes. For instance, it may be more effective to impose a ban on hazardous substances rather than a tax.

2. Economic efficiency

Policy instruments should achieve goals at minimum cost to society.

3. Incentive

There should be a continuous incentive to reduce pollution and to foster technical innovation. This 'dynamic efficiency' aspect is essential.

4. Flexibility

Polluters should have maximum flexibility in the ways and means to comply with environmental requirements, e.g., in the choice of abatement techniques and adaptation strategies. This flexibility is a key condition for achieving economic efficiency and environmental effectiveness.

5. Simple model of operation

Complex regulations or economic instruments can result in poor compliance, fraud, and excessive administrative and compliance costs.

6. Cost of implementation

All components of implementation costs must be taken into account: monitoring, licensing, enforcement, etc.

7. Integration in sectoral policies

Environmental policies must be properly integrated with other sectoral policies having an environmental impact, e.g., transport, energy and agricultural policies. For instance, energy taxation must internalize environmental cost; appropriate control of pesticides and fertilizers implies removal of related agricultural subsidies.

8. Minimization of regressive distributional effects

Policy instruments may have socially regressive impacts, e.g., by increasing the price of certain commodities (basic necessities). These distributive impacts must be mitigated and/or compensated.

9. Political acceptability

Political acceptability depends on many factors such as cost, simplicity, transparency, public participation, etc. Conformity with existing institutional framework is of particular relevance.

10. Economic impact

The wider economic effects of policy instruments must be carefully assessed and controlled, e.g., effects on prices, employment, competitiveness, economic growth.

11. Trade and international competitiveness

Trade and international competitiveness are increasingly taken into account in the choice of policy instruments.

12. Conformity with international agreements

Environmental policies operate within the framework of many international conventions, protocols and agreed principles such as the polluter pays principle. Trade rules must also be complied within the GATT/WTO context.