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Dear Mr Fews

**RE: Draft Guidance on Impact Assessments**

The Environmental Industries Commission (EIC) was launched in 1995 to give the UK's environmental technology and services (ETS) industry a strong and effective voice with Government.

With over 240 member companies EIC has grown to be the largest trade association in Europe for the environmental technology and services (ETS) industry. It enjoys the support of leading politicians from all three major parties, as well as industrialists, trade union leaders, environmentalists and academics.

EIC's comments below are, therefore, focused on the economic benefits of high environmental standards.

**1. Introduction**

EIC welcomes the steps by Ofgem to ensure proper assessment of the impacts of its decisions - the only rational approach to policymaking, ensuring that decisions are based on the net benefit.

EIC is concerned that Government Regulatory Impact Assessments have failed to assess the economic benefits (which complement the more obvious environmental benefits) created by high environmental protection standards.

EIC would therefore urge Ofgem to ensure in its impact assessments that the wider economic benefits of high environmental standards are fully assessed. We have listed these below.

**2. Benefits to the UK's Environmental Technology and Services Industry**

It is now widely recognized that there are huge opportunities in the rapidly growing global market for environmental technology and services. The world market for environmental goods and services is currently (2003) estimated US\$515 billion - comparable with the aerospace and pharmaceutical industries - and is forecast to grow to

US\$688 billion by 2010. At the heart of this (broadly defined) environmental industry is the environmental technology and services industry.

The key driver for the environmental technology and services industry is the investment required by environmental protection measures.

### **3. Wider Economic Benefits to Society: Health**

Higher environmental standards cut the costs to society from the effects of pollution notably damage to human health and to occupational health. Economists are only now beginning to quantify the costs of damage to human health - the costs can be worryingly high.

One significant study by DEFRA, "Air Quality Strategy: An Economic Analysis to Inform the Review of the Objectives for Particles" (2001), concluded that a 0.751 ug/m<sup>3</sup> reduction in particles from the proposed additional measures is predicted to lead to a gain of 278,00 to 508,000 life years for the UK population over the years from 2010 to 2110. The potential savings for the UK's National Health Service from cuts in PM10s might amount to £540 million, and £440 million from cuts in sulphur dioxide.

In addition, there are occupational health costs for workers in polluting industries. The European Commission has calculated that the occupational health benefits of the new REACH (chemical control) proposals may amount to 54 billion Euros (over 30 years).

### **4. Wider Economic Benefits to Society: Quality of Life**

Higher environmental standards also cut the costs to society from the effects of pollution in terms of the quality of life. Once again, economists are only now beginning to quantify these costs – which are also surprisingly high.

One significant study on such benefits arising from the EU's Water Resources Framework Directive for DEFRA concluded that amenity benefits might total as much as £1,929 million in England and Wales alone. In addition, benefits to anglers could total £706 million. Maximum total benefits amounted to £6,1265 million!

### **5. Wider Economic Benefits to Third Parties**

Higher environmental standards cut the costs to society from the effects of pollution. These include damage to economically important ecosystems, damage to building materials (like rubber and painted surfaces) and cleaning up polluted air, water and soil.

Cutting these costs is also going to be very important for the Candidate Countries.

Numerous studies have confirmed the very significant cost impacts costs of pollution. For example back in 1994 a Government study on the impact of VOC emissions “An Assessment of the Potential Damage to Materials in the UK from Tropospheric Ozone” found that the costs of damage to building materials (such as rubber and painted surfaces) alone ranged from £170 to £354 million a year. This was without considering costs to agricultural yields and forestry – let alone human health.

The very significant benefits of environmental protection measures in cutting these costs were highlighted in a recent report for the EU – “Benefits of Compliance with the Environmental Acquis for Candidate Countries” – which found the annual benefits for central and Eastern European ‘candidate’ countries of meeting EU environmental standards ranged from Euro 12.5 to 69.3 billion.

## **6. Promoting Resource Productivity and Innovation in Mainstream Industry**

Significant savings can be achieved in mainstream industry by cutting pollution through more efficient use of resources. Environmental protection measures that increase the costs of pollution provide incentives for companies to look at ways of producing more efficiently and cutting waste.

This economic benefit of environmental protection measures was thoroughly examined by a recent report of Imperial College and the Fabian Society "Innovation of the Environment: Challenges and Policy Options for the UK" (Imperial College, 2001). It concluded that the actual cost of compliance can therefore be much lower than the cost of abating the pollution and can even prove to be negative.

In addition, innovation leads often to lower costs of environmental protection measures, because once the innovation has become "state of the art", prices will do down. The Imperial College/Fabian Society report shows that whilst most studies put the costs of stabilising CO2 emissions over the long term in the range of 0.5 to 4% of Gross World Product, once the impact of innovation and ‘learning by doing’ is included the costs range from –3 to 1%. – so there may actually be GDP gains from measures to reduce CO2 emissions.

Yours sincerely,

Merlin Hyman  
Director