EXECUTIVE SUMMARY

While voluntary action to improve the environment is welcome, opinions differ on whether policymakers can rely on voluntary approaches to reach environmental targets.

A new report discusses voluntary approaches, both used in isolation and as part of “policy mixes”.

The report “Voluntary Approaches for Environmental Policy” provides an up-to-date discussion of the use of such approaches in meeting environmental policy goals. It builds on a number of case studies, and focuses in particular on the environmental effectiveness, economic efficiency and the administrative costs related to these approaches – when they are used either in isolation or as part of “policy mixes” together with other types of policy instruments.

The report concludes…

… that the environmental effectiveness of such approaches is questionable …

• While the environmental targets of most – but not all – voluntary approaches seem to have been met, there are only few cases where such approaches have been found to contribute to environmental improvements significantly different from what would have happened anyway.
• Hence, the environmental effectiveness of voluntary approaches is still questionable.
• This could indicate that a significant degree of “regulatory capture” has taken place.

… but the willingness to give priority to reaching environmental targets remains unclear anyway.

• But it remains unclear what would have been the – realistic – alternative to a given policy or policy combination. Would there in practice have been sufficient political willingness to give priority to reach ambitious environmental targets – if that, for instance, could jeopardise the (often modest) employment in the most affected (highly polluting) sectors?

The use of voluntary approaches can reflect a wish to avoid making trade-offs between environmental and social policy targets.

• The broadening use of voluntary approaches seems to reflect the fact that policymakers have tried to find an instrument through which one could avoid having to make such trade-offs. It is, however, unlikely that difficult trade-offs can be avoided if more ambitious environmental targets are to be met in the future.
• In most member countries, the entry into force of the Kyoto protocol will represent a new situation, where they face an economy-wide, legally binding, environmental
target. If, under such a regime, some sectors are given a more lenient treatment, other sectors will have to abate more – or the country will have to buy more quotas in the international market.

- Voluntary approaches are generally designed to limit the impacts of environmental policies on the production costs of participating firms. However, when firms do not face an appropriate marginal incentive to abate pollution (from a tax, or from the value of a tradable emission permit), environmental policy largely fails to stimulate a reduction in demand for the products that cause environmental problems in their production.

**The economic efficiency of voluntary approaches is generally low…**

- The economic efficiency of voluntary approaches is generally low – as they seldom incorporate mechanisms to equalise marginal abatement costs between all producers, *inter alia* because environmental targets tend to be set for individual firms or sectors, rather than at a national level.

**… but it could still be higher than for traditional “command and control” policies.**

- However, traditional “command and control” policies also rarely equalise abatement costs at the margin between different polluters, and voluntary approaches can offer a higher economic efficiency than such policies, by providing increased flexibility in how environmental improvements are to be accomplished.

- Voluntary approaches can sometimes be put in place more rapidly than alternative policy instruments, like new regulations or economic instruments. However, the likelihood of a voluntary approach providing any environmental improvements beyond “Business-as-Usual” depends strongly on their quality.

**The best alternative could be to replace “command and control” policies with economy-wide economic instruments.**

- A “first best” approach would be to replace the “command and control” policies by economy-wide economic instruments – taxes or tradable permits – where technically and administratively possible.

- A “second-best” option could be to improve the flexibility of pre-existing “command-and-control” regulations, instead of a piece-meal approach that lets only a few companies attain environmental improvements in a more flexible manner.

**Credible threats of alternative policies might improve the performance of voluntary approaches.**

- The performance of many voluntary approaches would be improved if there were a real threat of other instruments being used if (appropriately set) targets are not met. However, if it is likely – or widely believed – that the alternative policy would entail significant negative social impacts, the credibility of such threats may not be great.

**While the administrative costs of such approaches vary greatly, too low spending could degrade the environmental effectiveness.**

- Various types of administrative and transaction costs vary greatly between different voluntary approaches. If too few resources are spent in their preparation, negotiation and enforcement, their environmental impacts are likely to be very modest.

- Combining a voluntary approach with a tax or a tradable permit system can trigger quite significant additional administrative costs, and the environmental integrity of the other instrument can be weakened.

**It is recommended….**

Based on the discussion in the report, some recommendations for policy formulation have been singled-out:

**… to consider the if existing targets seem appropriate, and if they are being met at lowest possible costs.**

- Consider carefully if current environmental targets – or the lack of such targets – represent a reasonable balance between the combined benefits of additional environmental improvements and the total costs of achieving such improvements.

- Consider also if the targets are set in such a way that they encompass as many as possible of the sources of a given problem.
Consider carefully whether targets are met at the lowest possible economic and social costs.

**Address social concerns with other instruments.**

If economic costs under current policies are allowed to be higher than what could have been possible, in order to limit social costs (e.g. concerning transitory unemployment and/or impacts on low-income households): consider carefully whether such social concerns cannot be better addressed by other policy instruments.

**Is target fulfilment under existing approaches satisfactory?**

If a voluntary approach is already applied: consider whether target fulfilment to date is satisfactory, and whether credible threats of the application of additional instruments would be appropriate — and possible to implement.

**Elaborate a “Business-as-Usual” scenario before launching any new approaches, and underpin them with threats of applying other instruments.**

If a new voluntary approach is being prepared: elaborate first a “Business-as-Usual scenario”, describing likely developments in the years ahead if no policy-changes were to be made. Quantified targets should be set with reference to this scenario, in such a way that marginal abatement costs and marginal benefits of the environmental improvements balance reasonably well. Consider carefully whether well-prepared alternative policy instruments — that could serve as credible threats — can underpin the voluntary approach. Make sure to collect the information necessary for a later evaluation of the approach in question.

**Consider carefully the impacts of combining voluntary approaches with other instruments.**

Consider carefully various potential impacts of combining a voluntary approach with other policy instruments:

- Which are the likely consequences on environmental effectiveness, economic efficiency, administrative costs, sectoral competitiveness impacts, of the other policy instrument(s)?
- Which are the likely consequences of “adding” other instruments to the voluntary approach?

**Give priority to strengthen international co-operation to promote the use of economic instruments.**

The report does not alter the finding of many previous analyses that economy-wide economic instruments in many cases can be a better policy option than voluntary approaches, both from the point of view of environmental effectiveness and economic efficiency. A broader application of economic instruments is, however, frequently hampered by — in particular — a fear of loss of international competitiveness of the most affected (and most polluting) sectors, which in turn could have negative impacts on employment in these sectors. Providing tax exemptions to the sectors in question in return for “voluntary” abatement commitments can be one way to overcome “the competitiveness obstacle”. However, the environmental and/or economic costs of applying this option could be high. Increased international co-operation to facilitate use of economic instruments would seem to be a better option.

To purchase *Voluntary Approaches for Environmental Policy: Effectiveness, efficiency and usage in policy mixes*, and other OECD publications, visit the OECD Online Bookshop at [http://www.oecd.org/bookshop](http://www.oecd.org/bookshop) or send an email to sales@oecd.org

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