

ENVIRONMENTAL BUSINESS POLICY

Dimitris Maniatakis

Managing Director
ICAP Hellas S.A.
Greece

Environmental problems have, for some time, been at the forefront of development. In the last few years, in particular, there has been increased awareness of such problems by the public, specialised scientists, public services and international organisations. The object of this interest is to effectively protect the environment without, however, running counter to the process of development. In fact, that is the basic problem being faced in the field of ever-profitable development.

Decisions being taken, regarding protection of the environment, are especially important for the present as well as for future generations. If the environment is not protected effectively or if the planet's natural resources are exhausted, then life on earth will become unbearable and its very existence will be jeopardised. In order to make such vital decisions responsibly, decision makers must have, before them, all the data of the problems arising: On the one hand, the facts and studies analysing the technological nature of environmental problems and, on the other, their economic components.

Rapid progress has undoubtedly marked our knowledge in the past few years regarding, the technological dimension of environmental problems. For example, today, the scientific community knows much more, about the causal relationships affecting the planet's climatic conditions, than it did twenty years ago. The relevant models that have been developed have contributed to a fuller understanding of the "greenhouse effect." An important role in this understanding has been played by the creation of extensive and detailed statistical data which enabled the construction of realistic models. However, we should not forget that the environmental problem is complex and that its technological components constitute only one facet of the problem. Equally important, if not more so, is the economic dimension.

It is well known that the, so-called, economic externalities, which are interwoven with commonly used natural resources, lead to their ineffective distribution and create a discord between the private and public cost or benefit. As a result of this discord, market prices do not constitute credible indicators of the value assigned by society to products or production coefficients, the creation and use of which are related to procedures that downgrade the environment. This fact creates the need to revise certain basic indicators that evaluate the achievements of an economy, such as the gross domestic product or the per capita income. The need also arises to gather detailed data regarding the environmental expenditures of various services.

The rest of this report concentrates on economic data regarding the environment and, in particular, on the statistics referring to the environmental expenditures of enterprises. The collection of such data has not developed as rapidly as the natural statistical data regarding the environment. This observation applies to Greece, as well as, to other countries of the European Union.

Since 1992, ICAP Hellas S.A. has expressed interest on the subject of the environment in industry. It has conducted a sample survey, based on a random sample of 170 enterprises, for the purpose of identifying the polluting industrial sectors and the activities related to the environmental program of enterprises. It also recorded expenditures for the environment as well conducted a survey of the causes leading to measures taken by industrial enterprises for the environment.

As a result of the survey, it was ascertained that only a small percentage of industries are active in environmental programs, despite the fact that several industries have accepted the need to take up drastic initiatives. These, however, are held up because they burden production costs.

The enterprises' responses have shown that their environmental priorities are the processing of waste material (to the extent of 40.0%), the training of personnel (36.9%), the renovation of capital equipment (32.3%), recycling (25.2%) and the use of clean technologies (26.2%).

Within the framework of a more ambitious program on the European level, Eurostat has proposed a system of periodic gathering of economic data regarding the environment, called European System for the Collection of Economic Information on the Environment (or SERIEE in French). This system seeks to record the environmental expenditures of enterprises as well as of public services. It constitutes one of the satellite accounts of the European system of national accounts, which have been created for the purpose of reforming the national accounts system.

The primary objective of SERIEE, in its present stage of development, is the departmentalisation of expenditures related to the administration and protection of the environment, by type of environmental activity as well as by type and agent of the expenditure and its financing. Subsequent stages will provide for the interconnection of physical and economic magnitudes and the creation of input-output tables.

In Greece, SERIEE has not been applied by the National Statistical Service. However, the drafting of a pilot statistical survey (related to the first phase of the system's development), has been assigned, by Eurostat, to the Aegean University Department of Environment. I would like to thank Professor Michael Skourtos, who has placed, at my disposal, the current results of the survey.

The survey concerned the recording of operational and capital environmental expenditures of industrial enterprises. For this purpose, a sample was selected from industrial sectors, considered as important, from the environmental point of view. Despite the difficulties encountered by the survey, certain interesting conclusions were drawn, which coincide with, to a considerable extent, the ICAP survey to which I have already referred.

In the first place, the greater part of environmental expenditures during the five-year period 1989-1993 concerned operational expenditures and not investments in fixed asset equipment.

In the course of the aforementioned five-year period, the share of operational expenditures to total environmental expenditures of enterprises in the sample amounted to an average of 72.0%. This was an important factor, despite the fact that it was largely due to the investment stagnation marking that period. Perhaps it denotes a lack of interest in investments for the protection of the environment, as well as, a lack of the proper institutional framework and incentives. This view is reinforced by the fact that the same survey registered that most expenditures, of industrial enterprises, referred to emissions of air pollutants. Specifically, it was noted that expenditures for the atmospheric environment made up 65.8% of total environmental expenditures of enterprises, on the sample, whereas expenditures for surface waters made up 23.3%.

In this case, due to the acuteness of the problem and the public's sensitivity, the institutional framework is quite strict and imposes specifications for the type of capital equipment, as well as for input used, for example - fuel. Furthermore, in periods of increased presence of pollutants, even special measures are taken, such as the interruption of factory operations. However, it is no accident that basic metallurgy and the cement industry appear to have spent the highest amounts of money for the protection of the environment in recent years. Similar comments can be made in the case of pollutants of surface waters, where legislative enforcement is quite strict.

The investment programs of eight enterprises have been approved in the framework of special investments provided for under Law 2234/1994. Six of these concern the protection of the environment and two have to do with disassembling. In particular, the value of environmental plans amounts to Drs. 1.6 billion, which is 5.5% of the total value of special investment programs. These enterprises belong to the sectors of transportation means, metallurgy, non-metallic minerals, wood and furniture as well as medicines. The value of investment programs concerned with disassembling amounts to Drs. 650 million or 2.2% of the total. The two relevant enterprises belong to the sectors of plastics and technical works.

A hopeful sign comes from the incentives created by the prospect of recycling final, as well as intermediate products. It appears that the possibilities existing for the recycling of hard waste offer important incentives to industries undertaking investments permitting their exploitation.

The survey of the Aegean University is still in progress. We are anxiously awaiting the conclusions and the announcement of the final results. The present problems encountered are of three kinds. They are problems which we also faced during the ICAP survey of 1992:

First, it is quite difficult to identify the polluting sectors from the sample survey. The same sector frequently includes polluting as well as clean industries. As a consequence, valuable information is often lost in a random sample because the sample does not contain a sufficient number of polluting units.

A solution to this problem could be the abandonment of the sampling method in favour of the census recording of environmental statistical data of industry in general. Certainly this is a solution that costs money but, it appears to have provided good results in Germany and France.

The second problem, which may be even more important, is related to the estimation of the level of investments for the environment. The difficulty comes from the fact that, quite often, the anti-pollutant character of an investment is embodied in the capital equipment selected in such a manner that, it does not permit its separation from the remaining section. In such cases, industrial enterprises are unable to estimate the level of environmental investment, even when they are willing to respond. Similar problems exist as regards the operational expenditures for the environment.

There is no easy solution to this problem. However, it appears that the use of data for the, so-called, "reference technologies" may reduce the difficulty. In other words, apart from data on the cost of capital equipment with an embodied environmental character, we should seek data on the cost of similar fixed assets but which have no environmental components. Therefore, the expense which purely involves the environment can be calculated as the difference in cost between the two types of capital equipment. This could be done by the enterprises themselves if proper incentives were offered to them, as for instance, tax exemptions for including allocations with environmental components in a revised accounting system which would provide for such items.

Third, a certain reluctance is noted, among industries, to provide information on their policy regarding the environment. As mentioned earlier,

there are also technical reasons for such reluctance. But one should not forget that industries, in the past, had rightly or wrongly found themselves accused, as the principal enemies of the environment. This impression should soon disappear. It is widely acknowledged that the principal agent of urban atmospheric pollution is not industry but motor vehicles, as well as, central heating installations in buildings.

Industries must realise, however, that providing information regarding their environmental policy helps in understanding a complex economic-technical problem and consequently contributes to adopting effective and flexible measures for environmental protection. I believe that such measures are quite different from today's inflexible, and in many instances ineffective, policy of regulations and restrictions which, to a great extent, is due to the ignorance of services regarding the true dimensions and components of the problem.

Dimitris Maniatakis is the Managing Director of ICAP Hellas S.A. He studied economics in Greece and abroad and worked in the Credit Analysis Department of Citicorp. In 1969, he set up the "ICAP Databank," which currently constitutes the largest business information electronic network service. He is a member of the Board of Directors of the Union of European Enterprises and Entrepreneurs and Advisor on credit policy towards Greek and foreign companies. He has published articles in business magazines and journals and has done research on the funding and development of new businesses.