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The European environmental policy with respect to stationary sources. Harmonisation versus differentiation

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Chapter 1 Introduction

1.1 Research questions, contents and methodology

Over the past decades, the European Community has been evolving towards a common market comprising an increasing number of Member States. The word 'Europe' generally refers to a geographical entity, but we will reserve the term Europe to indicate the political entities formally known as the European Economic Community or EEC (following the Treaty of Rome¹), the European Community or EC (following the Merger Treaty²), and the European Union or EU (following the Maastricht Treaty³) in the then current shape with the then current number of Member States. Alternatively, we will refer to the Europe defined in this way as the Community or the European Community, irrespective of the stage of development of this Community.

One of the cornerstones of Europe (or the Community) is the common market (internal market). The common market was created - amongst others - because it was seen as a suitable economic tool to achieve for its participants a higher level of prosperity than could be achieved without some degree of integration of national markets. In the 1957 Treaty of Rome, prosperity was conceived in the narrow sense of higher standards of living or higher real income per capita, but over the years the concept has been broadened. From the 1972

1. The Treaty establishing the European Economic Community was signed on March 25, 1957, and entered into force in January 1, 1958.

2. The Merger Treaty was signed on April 8, 1965, and entered into force on July 29, 1967. The Merger Treaty created one common Council and one Commission for the three Communities (the Convention on certain institutions common to the European Communities, which entered into force parallel to the Euratom and the EEC Treaty, already provided for one parliamentary Assembly and one Court of Justice).

3. The Maastricht Treaty was signed in February 1992 and entered into force January 1, 1993. It introduced two new policy 'pillars' in addition to the first pillar based on the EEC, ECSC and Euratom Treaties.

Paris Summit on, prosperity also included environmental quality as one of the criteria.

One of the problems to be solved within the Community was and is how the different objectives, such as a high and increasing income per capita and a high quality of the natural environment, can be achieved simultaneously. Neo-classical economics offers a (basically) simple answer to this question. The Heckscher-Ohlin theorem states that countries (in a European context read: Member States) should concentrate on the production of those kinds of products which require inputs that are relatively abundant in that country. Next to labour, capital and natural resources, environmental quality can be viewed as one of those inputs. Member States where the environment is relatively abundant should therefore concentrate on relative pollution intensive output and Member States where the environment is scarce should concentrate on producing non-polluting or relatively less polluting products. It should be clear that any effort to impose uniform environmental standards on Member States is in conflict with the Heckscher-Ohlin theorem since it would restrict Member States in exploiting relative differences in environmental scarcity. Of course, this is a very rough and oversimplified presentation of economic theory, but in this stage it is the most suitable way to bring out a fundamental economic insight in its bare outlines, which is that as a general principle Member States within the common market should have the discretion to establish their own environmental requirements, taking into account national environmental conditions and national preferences for environmental quality. The Heckscher-Ohlin theorem provides the neo-classical economic argument for decentralisation of environmental policy in the European Community.

Glancing at the actual development of environmental policy in the European Community over the past three decades, one sees a picture that seems to be very much in contradiction with the advice of neo-classical economics. With the support of the Council, the European Commission has been developing

a Community environmental policy from 1972 on. Principal instruments of this Community environmental policy have been directives that require harmonisation of environmental standards for similar industries in the various Member States. In its most strict sense of full harmonisation, this policy would imply uniform environmental standards. Industry would then use the environment with the same intensity independent of where producers are situated in the European Community. The consequences of a harmonised approach would be that in countries where environmental quality is scarce - for example due to population density, structure of industry, natural conditions or national preferences - pollution per unit of output would be as high or low as it is in countries where environmental quality is relatively abundant.

1.1.1 Research questions and contents

This dissertation has been inspired by this apparent discrepancy between the advice from economic theory and the practice of environmental policy. A first question, which will also be the main issue of this book, is whether the observation of a discrepancy is correct or perhaps a faulty perception. A next question is whether an explanation can be given for the discrepancy in so far as it turns out to exist.

When it comes to the first question of determining whether a discrepancy between economic theory and Community environmental policy does indeed exist, the first task is to investigate more thoroughly what economic theory has to say about environmental policy in an economic community and to see whether the neo-classical argument for decentralisation as laid down in the Heckscher-Ohlin theorem is impregnable. In other words, we have to look for economic arguments for co-ordination or perhaps even centralisation of environmental policy. Also, we should look at the issue whether this co-ordination should take