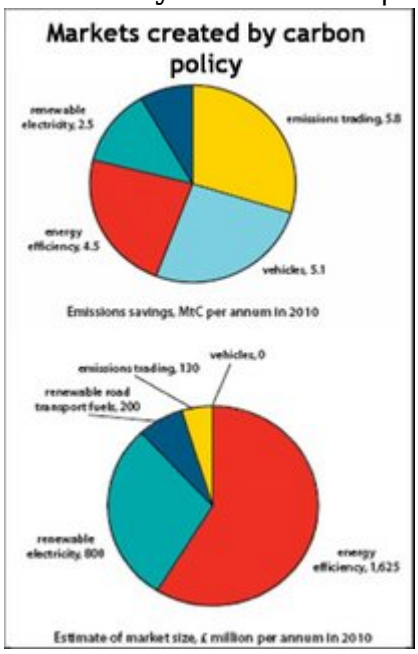
Environmental markets – long, loud and legal please

written by Clive Bates | 18 October 2006



An excellent report from Vivid Economics, titled *The business opportunities for SMEs in tackling the causes of climate change*, done for Shell's Springboard programme.

The particularly good thing about it is that it shows in clear terms how a market for environmental goods and services forms – primarily through policy interventions, as 'the environment' doesn't establish a demand and pay in its own right. The chart shows the expected environmental value of the policy intervention in avoided carbon emissions (top) and the expected value of the market for environmental goods and services thereby created in £million (bottom).

Long, loud and legal – the value of strong interventions

It's because of this market-making function that forward-looking business groups (eg, WBCSE) call for the policy framework to be 'long, loud and legal' – if the signals from environmental policy are sufficiently long-term, clear in intent, and intolerant of free-riding then they will stimulate investment and R&D to meet future demand. Campaigners also see the role of policy and regulation as moving 'From Red Tape to Road Signs'. Yet this seems to be what policymakers are reluctant to do… often seeing 'innovation policy' as direct government spending on R&D or dealing with failures in the venture capital market (see DTI innovation pages for a flavour – very little mention of the importance of the government acting clearly and consistently).

100,000 jobs would be nice… but what will create them?
In his 2006 conference speech, the Chancellor announced:

> *On the basis of the UK Government's plans to tackle climate change (the compliance market) and the emerging voluntary market, the UK market opportunity alone will be worth £4 billion a year by 2010. The compliance market resulting from the UK Government's climate change programme over the next 10 years will be worth around £30 billion or more. The compliance market is growing primarily because the UK is tightening building standards, bringing forward renewable electricity and biofuel schemes, and tackling the energy efficiency of dwellings.*

There's a lot money in environmental policy, and the strongest driver of national comparative advantage will the quality and strength of policy signals to UK firms – ie. intervention. That's a difficult and counter-cultural idea for policy makers that have spent years sympathising with businesses about 'regulatory burdens' and red tape.