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Reducing Pollution Through Negotiation

Negotiated agreements between companies and government regulating bodies to reduce pollution have met with greater success in Europe than in the U.S., although U.S. companies can benefit also, according to new research.

The findings are part of a study by researchers with the University of California, Santa Barbara's Bren School of Environmental Science and Management, which is reported in a recent issue of the Journal of Comparative Policy Analysis.

There are several reasons for the differences between countries, according to Magali Delmas, assistant professor, who wrote the paper with Ann Terlaak, doctoral student.

For example, in Europe, non-governmental organizations (NGOs) and the Ministry of Environment tend to get involved in such negotiations at the beginning and work out the details in advance. By contrast, in the U.S., a company may negotiate an agreement with the Environmental Protection Agency (EPA), and later end up in litigation with an NGO.

"And not all firms can afford to spend two years in negotiation with the EPA," said Delmas.

In the U.S. it can be very expensive to negotiate an agreement, and, having to renegotiate the agreement is even more costly. In Europe the process is better

organized and therefore less expensive.

One problem is confidentiality. Many companies are sensitive about having to reveal proprietary information through the Freedom of Information Act. This would be more likely to occur if the company has an agreement with the EPA. "The firm needs to trust in order to negotiate and it is not obvious that confidentiality can be kept," said Delmas.

Still, there are many potential benefits to negotiated agreements, even in the U.S., according to the authors.

Negotiated agreements can enhance the reputation of the company, giving it advantages that cannot be achieved through advertising. Besides enhancing its reputation, an agreement may allow the company to innovate more, to be more creative in pollution reduction. For example, with regulatory flexibility a company may not wish to install a scrubber to reduce air pollution, but instead has other ways to reduce it.

Another advantage may be the lowering of taxes in exchange for pollution reduction. This incentive has been used successfully in Germany.

On the plus side for industry, "participation in voluntary agreements can reduce the burden of regulation, facilitate the communication of environmental improvements, and allow companies to be ahead of competition in producing environmental products," according to the article.

The authors explain that beyond the bargaining over the pollution reduction targets set forth in an agreement, negotiated agreements may be further differentiated into two types. First is an alternative to regulation. "For example, a number of countries have refrained from the implementation of an energy tax and instead implemented negotiated agreements in which companies have committed to reducing their carbon dioxide emissions," said Delmas.

"The second type," write the authors, "supplements pre-existing regulations. Firms that participate in this type of negotiated agreement reduce pollution beyond what is required by law and in return receive regulatory flexibility in the form, for example, of facilitated permit procedures."

This paper follows "A Framework for Analyzing Environmental Voluntary Agreements" published last year in the California Management Review by the same

team of authors.

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