

Social Cost Benefit Analysis for Environmental Policy Making

Draft conclusions of an RMNO advice to the
Dutch Environment Ministry

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Introduction

Three questions:

1. How can environmental goods and services be assessed?
2. How can future benefits and current costs or current benefits and future costs be weighed (the issue of discounting)?
3. How can SCBAs be integrated in policy and decision making processes?

Problem setting

1. Assessment methods:

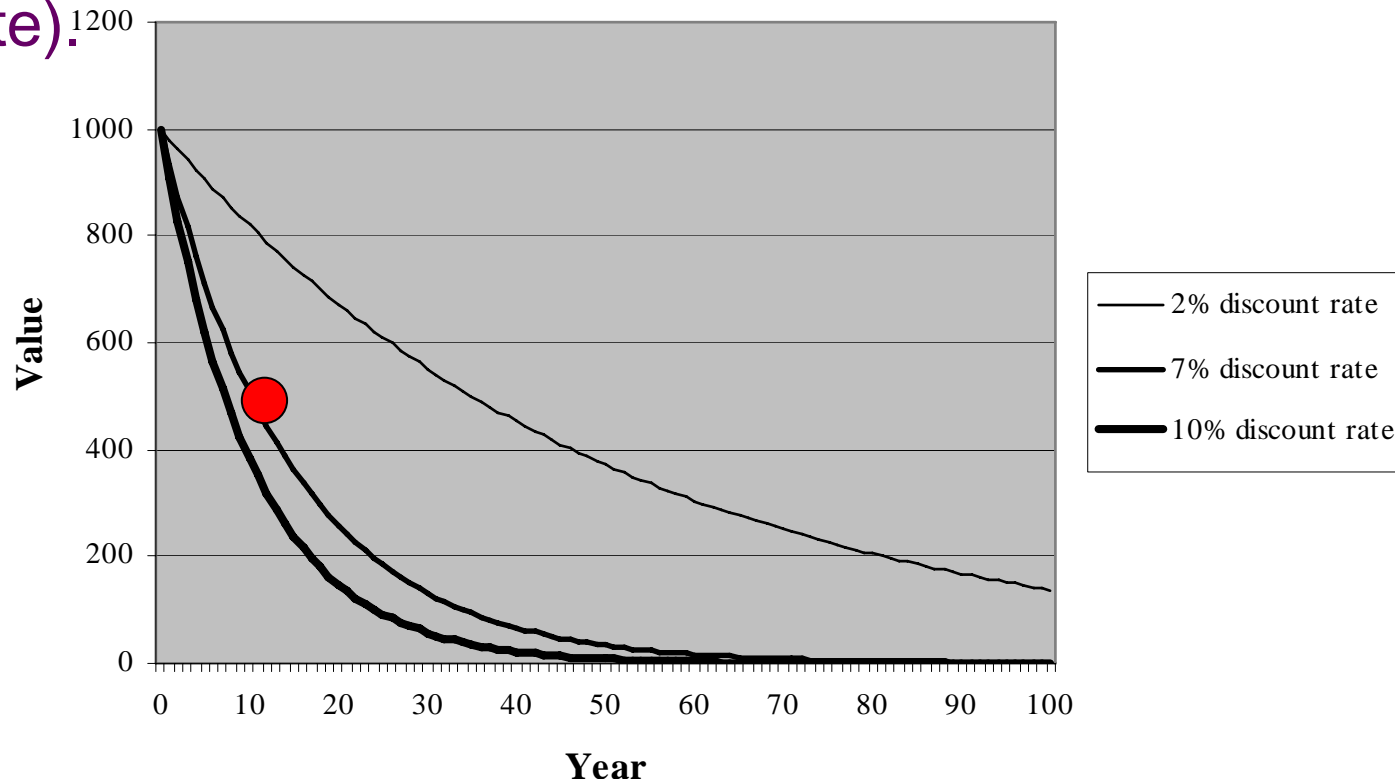
- Are often not transparent
- Contain normative assumptions (= the realm of politics, not of science)
- Use different approaches of valuating environmental costs and benefits.

2. Discount rates:

- Discounting means: the value of an investment decreases automatically with e.g. 2% or even 7% p.a.
- This means that the value of an investment of 1000€, after 10 years is only 500€ (●)

(with 7% rate).

Discounting



- Current standard in NL: 4% discount rate plus 3% 'risk premium'. In the European Commission: 4%.
- Ethical question: should we discount the future or not, and if so, at what rate? And: is discounting environmental and sust.development policies acceptable?

3. Roles of SCBAs in decision making

- Too often considered as technical/neutral method, although containing political choices.
- Media (and others) abuse the results of SCBAs: only the final figure is mentioned.

Main conclusions (Draft)

On valuation:

1. The Contingent Valuation Method (CVM) is currently the best method, although expensive and results are not transferable to other regions.

On discounting and risk:

2. Using the market interest as discount rate is too simple and not correct.
3. The choice of a discount rate for environmental decisions has an ethical dimension.

4. For environmental decisions a declining discount rate should be used for longer time horizons (like in the UK since 2003).
5. A risk premium should be added to a discount rate, covering the risk that a project will be cancelled prematurely.
6. Alternative to the risk premium is adjusting the discount rate to a new situation.

On the roles of SCBA in environmental decision making:

7. Several features of environmental policy require forms of joint fact finding: it is about public goods, contrasting interests and values, the complexity of long term decisions.
8. Even if using SCBAs is compulsory (which we do not advise), the choice for the method must be motivated transparently.

9. The choice of assumptions to be used in an SCBA should be a political decision. This includes assumptions on:
 - Peoples' behaviour in relation to long term environmental issues;
 - The benefits or costs of which the valuation is disputed;
 - The choice of a (declining or not) discount rate.
10. Further research is required on how involvement of civil society and private sector in SCBA processes can be improved.

11. 'Responsible' SCBAs (transparent, clear political choice of assumptions, forms of participation) are expensive, and should therefore be only used for large problems.
12. The Dutch govt. should take steps to convince the European Commission to introduce a lower discount rate.
13. Untimely or partial publication of results of SCBAs should be prevented with the help of a good communication plan under political responsibility.

Next steps

- 17 October: discussion about draft conclusions with Dutch economists and with Ministries of Environment, Transport, Finances, Agriculture, Economic Affairs.
- 3 international top economists are asked to write comments.
- November: finalisation report.
- 16/17 January 2008: International Working conference, The Hague, focusing on the implementation of the advice:
 - How to improve the valuation methods?
 - How to deal with discounting and risk?
 - How to improve the role of SCBAs in decision making processes?