





Part .A.

**CONFIDENTIAL**

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Begins : 6/9/89 .  
Ends : 20/10/89 .

**THIS FOLDER HAS BEEN REGISTERED ON THE REGISTRY SYSTEM**

PO CH | NL | 0518 .  
Pt.A.

Chancellor's (Lawson) Papers :  
The Pearce Report on Environmental Policy .

DD's : 25 Years

*D. Anderson*

8/3/96 .

PO CH | NL | 0518 .  
Pt.A.



CONFIDENTIAL

cc. Mr. ~~Spencer~~  
Mr. Todd  
Dr. Clapton

FROM: M C SCHOLAR  
DATE: 6 SEPTEMBER 1989  
EXT 4389

SIR PETER MIDDLETON

cc: Mr Odling-Smee  
Mr Culpin o/r  
Mr A S C Edwards

**THE PEARCE REPORT AND TAXATION: CHANCELLOR'S MEETING WITH MR PATTEN**

Mr Jefferson-Smith has written to me (attached) about the Pearce Report because he is concerned that unrealistic expectations may develop about what can be achieved through the tax system.

2. I have now seen Mr Odling-Smee's minute to you of 5 September with a submission which you could put to the Chancellor before his meeting with Mr Patten on 7 September. This seems to me to cover, as far as we should at this stage, Mr Jefferson-Smith's concerns but I suggest we add at the end of paragraph 12(iii) in the speaking note something to the effect that proposals for pollution taxes raises some very difficult issues indeed, both practical and political.

cc Mr A C S Allan  
Mr Norrington  
Miss M Wallace  
self

Mr H P Evans

Relevant to the Development  
Committee speech?

MS 12/9

MS

M C SCHOLAR

CONFIDENTIAL





*Blair*

CONFIDENTIAL

Board Room  
H M Customs and Excise  
New King's Beam House  
22 Upper Ground  
London SE1 9PJ  
Telephone: 01-620 1113

M C Scholar Esq  
HM Treasury  
Parliament Street  
London SW1P 5AG

5 September 1989

*Dear Michael*

#### ENVIRONMENTAL PROTECTION AND TAXATION

I spoke to you this morning about my concern about the current public opinion for using the price/tax mechanism in the environmental cause. On reflection I thought it could come in useful if I set out my views. If a briefing were needed for the Chancellor, I would be happy to put this bearing in mind that it is very much the perspective of a tax practitioner.

Another aspect to the environmental debate is the elimination of subsidies which encourage wasteful use of resources. As long as that does not encompass VAT zero rates, it could be more up the Treasury street!

*Yours ever*

*Pete*

P JEFFERSON S...



## CONFIDENTIAL

### ENVIRONMENTAL PROTECTION AND TAXATION

1. There seem to be growing calls for use of the price mechanism to protect the environment, including the use of taxation. Professor Pearce's work has been deliberately publicised by the Department of the Environment. Last week's Economist contained a whole section with the recurrent theme of using prices rather than regulation. Lloyds Bank has published a report advocating a special sales tax on pollutants.
2. From a theoretical standpoint, the case is plausible and attractive. Market prices should govern producers' and consumers' decisions; the price mechanism is more likely to lead to optimal economic decisions than arbitrary prohibitions or controls. But prices need to be adjusted so that producers or consumers taking decisions face the true costs, notably the costs falling on present and future generations of spreading waste and depleting natural resources.
3. The Chancellor took a much praised step in the right direction by his tax differential in favour of unleaded petrol. Other countries have introduced taxes or charges on environmentally damaging products which could be held up as examples to us. The Prime Minister has not associated herself with taxation but has backed environmental protection very strongly with her phrase about being life tenants on a full repairing lease.
4. But when we move from the theoretical and general to the practical and particular, it gets more difficult.
  - The theoretical elegance of the pricing argument is undermined by the fact that prices to be set for conserving the atmosphere or preserving a natural resource would be likely to be arbitrary in level and unforeseeable in their effect.



- if the higher prices/taxes fell on consumers they would increase the RPI while if they fell on producers they would weaken our competitiveness (UK carbon emissions are the second highest in the EC).
- taxes are neither simple or painless. They have resource costs; and they may be constrained by EC commitments (eg levies on tropical hardwoods, or tinkering with VAT mechanisms; and the need to operate taxes without frontier controls after 1992).
- extending this thought a little further, taxation as an environmental weapon might be better handled on an EC than a national level, though this would imply a major transfer of responsibility to the EC.
- the front-runner for environmental taxation would be a measure on fossil fuels related to their carbon dioxide emissions. If this continues to be ruled out, anything else is likely to be difficult to get at through the tax system or likely to be seen as minor by comparison.

5. It is therefore alarming to see so much generalised airing of the subject with so little consideration of the practicalities. This is, it must be admitted, the nervous reaction of a tax official, who feels that one day very soon, expectations are going to be aroused that cannot sensibly be fulfilled. But it leads to the conclusion either that we, as the mechanics who operate taxes, should get into discussions with other departments to ensure that they understand what can and cannot be done (with the risk that this encourages them to promote unwelcome ideas which would not otherwise have surfaced), or they should be sent a firm warning about the dangers of encouraging debate in an area where the results are likely to be politically unwelcome.



CONFIDENTIAL

From: Sir P. Middleton  
Date: 6 September 1989

CHANCELLOR

cc: Chief Secretary  
Financial Secretary  
Economic Secretary  
Mr Anson  
Sir T Burns  
Mr G H Phillips  
Mr Scholar  
Mr Odling-Smee  
Mrs Lomax  
Mr Mountfield  
Mr Spackman  
Mr S Wood  
Dr Chapman

SUSTAINABLE DEVELOPMENT: THE PEARCE REPORT

I promised you some background on the publication of the report by Professor Pearce on sustainable development. There is a speaking note at the end, which you could draw on when you see Mr Patten tomorrow.

The Report

2 The report was commissioned by the Department of the Environment and published by Professor Pearce and the London Environmental Economics Centre. However the DoE published a Press Notice welcoming the report and giving the impression that it was not very different from Government policy. In a letter to No 10 Downing St. on 23 August DoE said that they were delighted by the response to the report "which we launched this week". Despite this, the DoE have not committed themselves to any particular recommendations in the report, and Pearce distanced him-



self from the Government in his comments after publication.

3 The Treasury had commented on a draft executive summary of the Pearce report. We expected the report to be published at some stage, but in the event we had no advance notice, and we were not consulted about the terms of the Press Notice. We did not see a copy of the final report before publication: the latest draft we had seen contained no conclusions or recommendations.

#### The report's main points

4 The key points made in the Pearce report are:

- 'sustainable development' can be interpreted as ensuring that gains in the well-being of the present generation are not achieved at the expense of future generations; this means that the stock of assets, including environmental as well as man-made capital, should be maintained.

- the Brundtland Commission view that it is not necessary to trade off environment and development is simplistic: some trade-offs are inevitable.

- sustainable development should in addition be interpreted to mean that trade-offs should be constrained by the need to maintain critical environmental capital such as the ozone layer and the store of biodiversity.



-in project appraisal, it is important to price the environment as far as possible, in order to make informed judgements about trade-offs; several techniques for valuation have been developed.

-in project appraisal, it does not make sense to adjust the discount rate for environmental reasons, but appraisal guidelines (eg in use in government) should reflect the need to maintain environmental capital.

-unfettered markets are not environmentally benign: prices should be adjusted to reflect the environmental costs of production.

-environmental policy will cost more as we better control acid rain, exhaust emissions and global warming; but measures should be cost-effective.

-modifying the national accounts to publish an 'environmentally adjusted' GNP is unlikely to be cost-effective; however, better monitoring of the interaction between the environment and the economy is needed, through integrating environmental and economic statistics and through measuring 'sustainable income'.

#### The report's recommendations

5 The report's recommendations are mostly for further studies. They fall into 3 groups:



(a) high priority recommendations which might imply significant expenditure on the preparation of statistics: these are "measuring sustainable income" and preparation of "integrated environment-economy statistics";

(b) high priority recommendations which could have important policy implications: these are feasibility studies of the use of "resource/product taxes" and the "feasibility of marketable permits";

(c) other recommendations, of lower priority or with no major expenditure or policy implications (eg "Revise Treasury guidelines" on project appraisal, and conduct work on the "Growth-environment linkage").

#### Comment

6 The Pearce report has raised awareness of the need for incorporating environmental factors in economic decision-making. It puts a helpful case for conducting careful analyses of environmental factors and ensuring that they are put in an economic context. It is also a useful, if rather optimistic, review of the available techniques for the monetary estimation of environmental values. Some of the material in the report might be useful for your speech to the Development Committee in Washington on 25 September.

7 However, there is little in the report that is operational, and it tends to underestimate the severe practical difficulties in valuing environmental factors and integrating environmental



and economic statistics. It largely points to our areas of ignorance, notes the (limited) contribution of recent economic literature, and recommends further research.

8 The high priority recommendations for the preparation of statistics (paragraph 5(a) above) are unpromising. "Sustainable income" is an elusive concept and "integrated economy-environment statistics" would be very costly to produce and of doubtful value. It is better to focus on major environmental problems (such as global warming and acid rain) case by case and work through their particular economic linkages.

9 The second group of recommendations (paragraph 5(b) above) are for feasibility studies of the use of charges, taxes and marketable permits in selected areas of pollution control. Following Mr Culpin's submission of 21 April, you asked for work to continue in the Treasury on pollution taxes, essentially for defensive purposes, recognising that they could be a "Pandora's box". It might be useful for the Department of the Environment to do some work on marketable permits and pollution charges, along the lines suggested by Professor Pearce.

10 The third group of recommendations (paragraph 5(c)) are unlikely to imply significant public expenditure or have major economic implications. Some of these are for academic research rather than for Government action. Some, such as investigating the effects of the energy and agriculture sectors on the envi-



ronment, or revising Treasury guidelines, are activities which are in any case in hand to some degree.

11 We understand that DoE have not yet fully thought out how to take forward Professor Pearce's work, beyond the perception that the issues raised need to be pursued in the OECD and UN contexts. There is as yet no satisfactory machinery at official --or Ministerial-- level to ensure coordination of this work, and it will be important that DoE keep the Treasury and other interested departments fully informed.

#### Meeting with Mr Patten

12 You might like to speak to Mr Patten on the following lines:

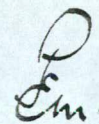
1 Surprised at the poor consultation with the Treasury over the Pearce report. We should have been told what would be published and when. In particular we should have been consulted about the terms of your own Press Notice. We expect normal custom and practice to return to consultation in this area. I therefore hope we will be fully consulted about follow-up work on the report and on other environmental issues which affect economic policy in its broadest sense.

2 Important also to be clear that the Government is not committed to any of the Report's specific recommendations. Always a risk when Departments welcome external contributions to policy discussions that false expectations of action may be



raised in the public's mind. There is a particular risk where the author concerned has become a special adviser to a Government Minister.

3 Obviously there is a case for paying more attention to environmental costs and benefits and the Pearce Report is helpful in raising awareness of environmental issues and their link with economic decision making. But however theoretically sound many of the Report's arguments may be, what matters most is for Government to support work which is likely to generate outcomes which are useful in practice. Very important for example not to encourage any assumption that future policy is somehow already directed towards the introduction of pollution taxes. This raises some very difficult issues indeed, both practical and political, and could be extremely dangerous. Most cost effective approach likely to be in tackling specific environmental issues on their own merits rather than looking for new comprehensive policies based on some overall philosophy of "sustainable development".



P. E. MIDDLETON



PLIP



FROM: JOHN GIEVE  
DATE: 8 SEPTEMBER 1989

SIR PETER MIDDLETON

- cc PS/Chief Secretary
- PS/Financial Secretary
- PS/Economic Secretary
- Sir T Burns
- Mr Anson
- Mr G H Phillips
- Mr Scholar
- Mr Odling-Smee
- Mrs Lomax
- Mr Mountfield
- Mr Spackman
- Mr S Wood
- Dr Chapman

**SUSTAINABLE DEVELOPMENT: THE PEARCE REPORT**

This subject was discussed briefly at the Chancellor's and Chief Secretary's meeting with Mr Patten. The Chancellor registered the points about poor consultation given the Treasury's substantial interest in the subject. Mr Patten said he would investigate why the Press Notice had not even been sent to the Treasury in advance on this occasion. The Chancellor said he would write to Mr Patten setting out his views on the substance of the report which he described as a useful contribution to a developing debate. I would be grateful if you would arrange for a draft letter to be prepared for his signature.

X

*Moira* / *PEM'S* office should get something by 2.00pm today.  
we should get something shortly afterwards.

*Mike*

*Mike*

JL

*I'm handling this for the moment. Can you find out when we may expect X (I think Odling-Smee will probably be dealing with this) Ch will want to write before he leaves for W-ton.*

JOHN GIEVE

*h.*



BF post Washington

CONFIDENTIAL

MP

FROM: R J EVANS  
Ext: 4360  
DATE: 22 September 1989

**MR SPARKES**

*Handwritten notes in red ink:*  
Just see OK as  
See also comments on  
draft note by Sparkes

- cc Mr Anson
- Sir T Burns
- Mr Phillips
- Mr Monck
- Mr Scholar
- Mr HP Evans
- Mr Odling-Smee
- Mr Culpin
- Mrs Lomax
- Mr Mountfield
- Mr Spackman
- Mr S Wood
- Mrs Chaplin
- Mr Tyrie
- Mr Lightfoot
- Mr Chapman

**SUSTAINABLE DEVELOPMENT: THE PEARCE REPORT**

Following his meeting with Mr Patten on 7 September, the Chancellor asked for a draft letter which he could send to Mr Patten commenting on the substance of the Pearce Report and setting out the Treasury position on environmental issues generally. Your office subsequently agreed that this should be cast in the form of a note by officials on the Pearce Report with a short covering letter. This is now attached.

*Handwritten note:*  
Happy to send this - a fairly polite response to Patten? The full Pearce report is behind, with an additional note from Spackman which I happen to have got a tide copy of.

*Handwritten signature:* R J Evans

R J EVANS  
Private Secretary

*Handwritten note in red ink:*  
I have to do (from me)

*Handwritten note:*  
There is clearly a danger of Mr Patten's mulling away with the ball. See his latest bright idea (pink folder inside). Appointing a Mr Environment within HMT may help us to catch up some ground, but the momentum eg on the tax front, from Messrs Patten and Wakeham, is building up. RPC was, I think, going to consider whether there were any options worth keeping in our back pocket. You might ask him when you see him. nps 29/9



*pl type final  
M.*

DRAFT LETTER TO MR PATTEN

I undertook at our meeting on 7 September to let you have some comments in writing on Professor Pearce's report on sustainable development. I attach a note by my officials.

The Report - and some of the material which accompanied its release - conveys the impression that sustainable development is an operational concept. *Regrettably, the docs will stand up.* ~~I am afraid to say that I do not take such a rosy view.~~ As parts of the Report honestly admit, there are severe difficulties in the valuation of environmental resources and impacts; often, they cannot even be quantified. This means that laudable-sounding objectives such as measuring sustainable income and taking account of it in decisions are, in practice, unlikely to be achievable in the foreseeable future.

A related point is that ~~establishing linkages between economic activity and environmental processes~~ may be much more difficult than the Pearce Report appears to imply. We have to be very careful not to raise false expectations; ~~this is especially true of~~ the so-called "integration" of environmental concerns into economic decision making. I fully endorse taking account of environmental concerns; I also endorse making use of market mechanisms wherever these are possible, feasible and consistent with our *policy* philosophy on other issues such as taxation. But far-reaching integration of many aspects of environmental and economic decision making is likely to prove impossible.

*o/y  
there's  
the  
mb!*



That said,

The references to taxation, although in general terms, raise very difficult issues, both practical and political. ~~However~~ I agree it would be useful for your officials to do some work on marketable permits and pollution charges, but it is very important not to encourage any assumption that future policy is <sup>needed</sup> directed towards the introduction of pollution taxes. I am grateful that you have avoided giving credence to that in your comments on the Report. ↑

sets

I understand that you and your officials are currently considering how to take forward Professor Pearce's work, beyond a recognition that the issues raised need to be pursued in the OECD and UN contexts. It will be important that ~~DoE~~ <sup>involve</sup> keep the Treasury and <sup>other</sup> interested departments <sup>involved in this.</sup> fully informed. <sup>arr</sup> And before further work is undertaken I should like there to be a thorough discussion between our officials, and then for you and I to agree on any future work programme.

// I am copying this letter to the Prime Minister

YKS

Copy to No 10? [Cathryn Sinclair rings to say the Policy Unit are eagerly awaiting our thoughts.]



27/9/89.

CONFIDENTIAL



*Essential  
Due this is  
keep  
subject  
of the  
exp 2x4.*

CH/EXCHEQUER	
REC.	28 SEP 1989
ACTION	CST
COPIES TO	

✓ 28/9

PRIME MINISTER

**ENVIRONMENT POLICY**

I seek your agreement to the Government publishing a White Paper on the Environment in the early autumn of next year; and to my announcing this at the Party Conference.

The environment is now prominent in both the UK and on the international political agenda. We are under heavy pressure to do more, in an area where it is clearly impossible to satisfy the extremists. Contrary to much public opinion both here and abroad our record is a good one, and great efforts have been made in recent months to publicise it - for example through the 'Saving the Ozone Layer' Conference and the 'Environment in Trust' leaflets. But inevitably our commitment to sound science and economic sense can all too readily - though wrongly - be represented as foot dragging.

In the short term I am confident that the general policies we are pursuing will enable us to get our message across effectively. I have in mind particularly the forthcoming Environment Protection Bill, which will give us a good Parliamentary platform; the follow-up to Professor Pearce's report on the economics of the environment; and our global activities especially on climate change. We must also, in the coming year, keep our environmental leaflets - which have been well received - updated.

*which is what?*

But having now taken stock of where we have got to, I am convinced that we must work towards a more comprehensive presentation of our policies if we are not to be unnecessarily upstaged by our opponents. I believe that we must make a rational and coherent statement of policy, which would enable us both to set out our achievements and to develop a programme for the future. Such a statement would be an effective Parliamentary instrument, would spike one of the Green lobby's guns and might serve - depending on how things develop and subject to other legislative priorities - as a precursor to further legislation.



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I would see a White Paper setting out:-

- X
- a. the overall philosophy of the Government on environmental policy (sound science, good economics, precautionary approach where necessary, polluter pays principle, sustainable development, separation of regulator from regulated, wish to build on existing institutions);
  - b. factual material on the current state of the environment, with particular reference to success stories and problem areas;
  - c. a clear account of our achievements so far (eg. Wildlife and Countryside Act, Her Majesty's Inspectorate of Pollution, North Sea Conference, Large Plants Directive, cleaning up car exhausts, integrated pollution control, waste policy, litter, water privatisation, National Rivers Authority);
  - d. some pointers to the future (eg. global issues such as ozone layer and climate change, commitments already in European Directives, our ideas on economics and market mechanisms, the need to integrate the environment into economic and industrial policy, the role of the consumer and of the individual).
- Y

In terms of timing, there is a lot of work to do if this is to be the substantive document I have in mind. It would be sensible to give ourselves time for policy development and consultation with the many colleagues who, I recognise, are closely interested. This points to publication about this time next year, which would also fit well with completion of the passage of the Environment Protection Bill through Parliament. But I believe that I should make an early announcement of our intention to issue a White Paper in order to maintain the political initiative, although of course I would want to do it in such a way so as not to pre-judge or



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pre-empt decisions which are the prime responsibility of other colleagues. The Party Conference is the obvious platform from which to make such a statement of intent.

I suggest that at the same time it would be right to announce an intention to launch next year - probably for publication at the same time as the White Paper - a periodic "State of the Environment" report. This will fit in well with the current EEC discussion on a European Environment Agency to collate Environmental information on all the member states. (In my view we have nothing to lose and much to gain from a comparison of community-wide environmental data which we would insist should be collected on a strictly uniform basis.) In preparing our own Environmental statement, we could build upon the excellent but low key annual Departmental "Digest of Environmental and Water Statistics", perhaps expanded to provide an appropriate science base for the assessment. We would of course need to look closely at the balance between a White Paper and a first environmental report.

*This is  
a Pearsism*

I am copying this minute to Cabinet colleagues and Sir Robin Butler.

CHRIS PATTEN

27 September 1989





REC.	245.7.1989
ACTION	Mr A. Edwards
COPIES TO	CX, EST, PM6, EST, Sir P. Middleton, Mr. Angus, Mr. Phill, Mr. Lomax Mr. S. Wood, Miss James, Mr. Cotnam, Mr. Chepl...

PRIME MINISTER

**ENVIRONMENT POLICY**

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The environment is now prominent in both the UK and on the international political agenda. We are under heavy pressure to do more, in an area where it is clearly impossible to satisfy the extremists. Contrary to much public opinion both here and abroad our record is a good one, and great efforts have been made in recent months to publicise it - for example through the 'Saving the Ozone Layer' Conference and the 'Environment in Trust' leaflets. But inevitably our commitment to sound science and economic sense can all too readily - though wrongly - be represented as foot dragging.

In the short term I am confident that the general policies we are pursuing will enable us to get our message across effectively. I have in mind particularly the forthcoming Environment Protection Bill, which will give us a good Parliamentary platform; the follow-up to Professor Pearce's report on the economics of the environment; and our global activities especially on climate change. We must also, in the coming year, keep our environmental leaflets - which have been well received - updated.

But having now taken stock of where we have got to, I am convinced that we must work towards a more comprehensive presentation of our policies if we are not to be unnecessarily upstaged by our opponents. I believe that we must make a rational and coherent statement of policy, which would enable us both to set out our achievements and to develop a programme for the future. Such a statement would be an effective Parliamentary instrument, would spike one of the Green lobby's guns and might serve - depending on how things develop and subject to other legislative priorities - as a precursor to further legislation.





OVERSEAS	
3 OCT 1989	
EST	

CHIEF SECRETARY	
REC.	- 3 OCT 1989
ACTION	Ms S Wood
COPIES TO	Cx Mr Anson, Mr Monek, Mr Edwards Mr Mountfield, Mr Cotmore, Mrs Chaplin

Department of Employment  
 Caxton House, Tothill Street, London SW1H 9NF  
 Telephone 01-273 . . . 5803  
 Telex 915564 Fax 01-273 5821  
 Secretary of State

The Rt Hon Christopher Patten MP PC  
 Secretary of State for the Environment  
 2 Marsham Street  
 LONDON  
 SW1P 3EB

29 September 1989

*Dear Chris*

*MP*  
~~MOIRA~~

Thank you for the draft copy of 'Sustaining our Common Future'.

I welcome your intention to produce a document which is more politically aware than of those of some of the other ECE countries and which receives media attention; and I am sure your report will achieve that intention. I am afraid the short time for consideration made it difficult for the Health and Safety Commission and Executive to participate as fully in comment on the industrial pollution side as I should prefer them to. As partners with Department of Environment officials in the control of industrial pollution they can also offer implementation of shared objectives. Perhaps your officials would keep in touch with them, through mine, over developments and any further proposed publication in this field.

I am copying this letter to John Major and the recipients of yours.

*Yours faithfully,*

**NORMAN FOWLER**







FROM: MISS M P WALLACE  
DATE: 3 OCTOBER 1989

PS/CHIEF SECRETARY

cc PS/Financial Secretary  
PS/Paymaster General  
PS/Economic Secretary  
Sir P Middleton  
Mr Anson  
Mr Odling-Smee  
Mr Phillips  
Mr A J C Edwards  
Mrs Lomax  
Mr Spackman  
Mr S Wood  
Miss James  
Mr Cotmore  
Mrs Chaplin

**WHITE PAPER ON THE ENVIRONMENT**

The Chancellor has seen Mr Patten's minute to the Prime Minister of 27 September. He has commented that, if this White Paper goes ahead, it is essential that the Treasury is kept fully involved, especially in Mr Patten's points (a) and (d) - "the overall philosophy of the Government on environmental policy" and "pointers to the future".

A handwritten signature in black ink, appearing to read 'Moira Wallace'.

MOIRA WALLACE





Chancellor of the Duchy of Lancaster

PRIME MINISTER

CH/EXCHEQUER	
REC.	3 OCT 1989/10
ACTION	CST
COPIES TO	

ENVIRONMENT POLICY

I have seen Chris Patten's minute to you of 27th September in which he recommends publishing a White Paper on the Environment in the early autumn of next year. I would strongly support this, it seems to me to be well timed and I think he will need several months in order to get this into good shape.

It is important to pull together all the various initiatives that we have taken in such a complicated area so that the public are much more aware of what we have achieved in the last ten years. In addition to this, there will be measures that we will take in the forthcoming Bill, and no doubt other proposals for further developments in the future. The White Paper should also cover the extensive research into environmental matters by the various Research Councils.

I hope that the White Paper will be presented in a really attractive way, so that it can get a very wide coverage.

I am a little less enthusiastic about a periodic 'State of the Environment' report. We must ensure that this does not become a rod to be laid heavily on our backs. I have in mind the annual report of the HMI on the state of Education. Certainly the White Paper could itself be a 'State of the Environment' report, but I think we should be very wary of announcing any regular series of publications. This may well enflame expectations, some of which we might have some difficulty in meeting.

I am copying this minute to Cabinet colleagues and Sir Robin Butler.

KB

3rd October 1989





Treasury Chambers, Parliament Street, SW1P 3AG  
01-270 3000

pl amend  
letter (insert for  
A) is behind)

pl also  
type up  
attachment

3 October 1989

(at fly)  
Thanks  
M.

Rt Hon Christopher Patten MP  
Secretary of State for the  
Environment  
Department of the Environment  
2 Marsham Street  
LONDON  
SW1P 3EB

I undertook at our meeting on 7 September to let you have some comments in writing on Professor Pearce's report on sustainable development. I attach a note by my officials.

The Report - and some of the material which accompanied its release - conveys the impression that sustainable development is an operational concept. Regrettably, this does not stand up. As parts of the Report honestly admit, there are severe difficulties in the valuation of environmental resources and impacts; often, they cannot even be quantified. This means that laudable-sounding objectives such as measuring sustainable income and taking account of it in decisions are, in practice, unlikely to be achievable in the foreseeable future.

A related point is that the so-called "integration" of environmental concerns into economic decision making may be much more difficult than the Pearce Report appears to imply. We have to be very careful not to raise false expectations. I fully endorse taking account of environmental concerns; I also endorse making use of market mechanisms wherever these are possible, feasible and consistent with our policy on other issues such as taxation. But far-reaching integration of many aspects of environmental and economic decision making is likely to prove impossible.





The references to taxation, although in general terms, raise very difficult issues, both practical and political. It is very important not to encourage any assumption that future policy is ~~necessarily~~ directed towards the introduction of pollution taxes. I am grateful that you have avoided giving credence to that in your comments on the Report. That said, I agree it would be useful for your officials to do some work on marketable permits and pollution charges. <sup>such speculation</sup> (A)

I understand that you and your officials are currently considering how to take forward Professor Pearce's work, beyond a recognition that the issues raised need to be pursued in the OECD and UN contexts. It will be important that the Treasury and indeed other interested departments are fully involved in this. ~~And~~ before further work is undertaken I should like there to be a thorough discussion between our officials, and then for you and I to agree on any future work programme.

I am copying this letter to the Prime Minister.

And it goes without saying that, if colleagues agree to your proposed White Paper, I should expect the Treasury to be fully involved in that too.

NIGEL LAWSON

In particular, I should like my officials



FROM: MISS M P WALLACE

DATE: 5 OCTOBER 1989

*Don't forget  
as you present  
(as ...)*

*normal  
an. h. k.*

CHANCELLOR

ENVIRONMENT

You wanted some words on taxation added to the missive to Mr Patten. You suggested they might go in the note - but this is drafted in such neutral terms, I wonder whether the point might not be made more forcefully in the covering letter. Having discussed this with Robert, I suggest you stick something along the following lines at the point marked (A) in the letter;

(A)

"For one thing, that simply is not the case at present. And although I should be happy to consider any specific proposals put to me, I have to say that there would need to be very forceful arguments for going down this road to offset its potential disadvantages. For introducing pollution taxes would represent a considerable departure from our taxation policy hitherto. ~~Indeed - depending on what was proposed - it could contravene the Prime Minister's pledge not to tax fuel.~~ And, of course, to introduce any pollution tax unilaterally would merely disadvantage ~~us~~ vis a vis ~~our~~ competitors, without making any significant difference to the Greenhouse effect."

*contrasts*

*(75)*

One additional point perhaps worth registering is the need to keep HMT fully involved in work on the Patten White Paper. LG have put up a draft for the CST to send - behind - but it doesn't make a lot of sense to send two such similar letters simultaneously from different people. Hayden suggests you might send them both, a private one for Patten, and a bland one for the PM and general consumption. Even that seems to much to me. You could cover the point with a para in the Pearce letter, and register the point with the people who matter. I have scribbled a suggestion in this sense.

*mpw.*

*UK adjust*



CONFIDENTIAL

OFFICIALS' COMMENT ON THE PEARCE REPORT

The Pearce report has raised awareness of the need for incorporating environmental factors in economic decision-making. It puts a helpful case for conducting careful analyses of environmental factors and ensuring that they are put in an economic context. It is also a useful review of the available techniques for the monetary estimation of environmental values.

However, the Report's conclusions underplay the substantial practical difficulties in valuing environmental resources and integrating environmental and economic statistics. The text does acknowledge a number of the problems of valuation --for example, those entailed in environmental accounting, such as the arbitrariness of quality standards. But the Report is over-optimistic about problems such as measuring welfare losses due to pollution and depreciation in the natural resource base. Such statistical exercises can absorb considerable amounts of skilled resources, to little practical benefit. A related cause for concern is the wide range of answers likely to be generated in an attempt to value such environmental resources as forests and wetlands --reflecting probably inevitable difficulties with such techniques as contingent valuation. In this regard, the authors note that "much more work is required to adequately explain" the variability between willingness-to-pay and



d

willingness-to-accept valuations. The Report points to our relative ignorance in these areas.

Perhaps inevitably for a report with such a wide sweep, there is little that appears to be operationally useful for policy formulation. This is implicitly recognised in the recommendations, which are mainly for further research.

Turning to the recommendations themselves, the high priority ones for the preparation of statistics are unpromising. "Sustainable income" is an elusive concept, and it is not clear which of various alternative definitions, if any, should be adopted. Yet they have radically different implications. "Integrated economy-environment statistics" would be very costly to produce and of doubtful value in practice, given the enormous margins of error to which they would be subject. It is likely to be more productive to focus on major environmental problems (such as global warming and acid rain) case by case and work through their particular economic linkages.

A second group of recommendations proposes feasibility studies of the use of charges, taxes and marketable permits in selected areas of pollution control. While it might be useful for the Government to do some work on marketable permits and pollution charges, along the lines suggested by Professor Pearce, no encouragement should be given to the presumption that future policy is somehow already directed towards the introduction of

①



pollution taxes.

[MUST STATE WHY]

trade-off-  
speak ||

The remaining recommendations are unlikely to have major economic implications in the short term. Some of these (eg work on how past growth has affected the environment, and on the idea of 'importing sustainability') are for academic research rather than for Government action. Some, such as investigating the effects of the energy and agriculture sectors on the environment, or revising Treasury guidelines, are activities which are in any case in hand to some degree. And some are simply not workable. For example, the recommendation that, for each public expenditure "programme" (not defined) "environmental capital in the aggregate" should not be reduced turns on there being an operational measure of environmental capital. Even if this were the case, <sup>which it is not</sup> it is not clear that this recommendation would be desirable.

Jan Jan

To conclude, there is clearly a case for paying more attention to environmental costs and benefits and the Report is helpful in raising awareness of environmental issues and their link with economic decision making. It is a useful contribution to a developing debate. But however theoretically sound many of the Report's arguments may be, it is preferable for Government to support work which is likely to generate outcomes which are useful in practice. The most cost-effective approach is likely to be to tackle specific environmental issues on their own merits rather than look for new comprehensive policies based on some overall philosophy of "sustainable development".



dti

the department for Enterprise

MP

4/10/89.

~~MOIRA~~

CH/EXCHEQUER	
REC.	4 OCT 1989
ACTION	EST
COPIES TO	

PRIME MINISTER

ENVIRONMENTAL POLICY

In his minute to you of 27 September Chris Patten proposes publication of a White Paper on the Environment in the early autumn of next year and, to coincide with this, publication of the first of periodic "State of the Environment" reports.

I support the proposal and the suggestion of an announcement at the Party Conference. As Chris says we need to ensure that our good record on the environment is better understood and appreciated nationally and internationally. We need to demonstrate our commitment to the environment and how, for example, as a Government, we are acting on the need for the environment to be integrated in economic and industrial policies consistent with Brundtland.

A White Paper next year would help, building on the recent efforts to which Chris refers and the presentation of our policies and record during the passage of the Environment Protection Bill. It would also help my department in its efforts to encourage increased business awareness and action on the environment, in particular in setting environmental







the department for Enterprise

policy in a forward-looking framework. This will help businesses plan their own responses to the increasing pressures for higher standards.

I am copying this letter to Cabinet colleagues and Sir Robin Butler.

A handwritten signature in black ink, appearing to be 'N R', is positioned below the typed text.

N R

4 October 1989

DEPARTMENT OF TRADE AND INDUSTRY

PE2ACM

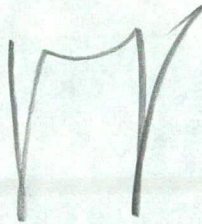




CONFIDENTIAL

FROM: S N WOOD (LG2)  
DATE: 5 October 1989  
x4729

CHIEF SECRETARY



cc: PS/Chancellor  
PS/Financial  
Secretary  
PS/Paymaster General  
PS/Economic Secretary  
Sir P Middleton  
Mr Anson  
Mr Wicks  
Mr H Evans  
Mr Odling-Smee  
Mr Phillips  
Mr Scholar  
Mr Culpin  
Mr A J C Edwards  
Mrs Lomax  
Mr Spackman  
Mr Gilhooly  
Miss S James  
Mr Cotmore  
Miss Wallace  
Mrs Chaplin

**WHITE PAPER ON THE ENVIRONMENT**

Mr Patten minuted the Prime Minister on 27 September, recommending that she agree he should announce at the Party Conference that the Government should publish a White Paper on the Environment in the early Autumn of next year. He also suggested that it would be right to announce an intention to launch next year a periodic "state of the environment" report.

2. The Chancellor has commented that if this White Paper goes ahead, it is essential that the Treasury is kept fully involved, especially on Mr Patten's points relating to the overall philosophy of the Government on environmental policy and pointers to the future.

3. The Chancellor of the Duchy of Lancaster minuted the Prime Minister on 3 October, strongly supporting the suggestion of

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a White Paper, but expressing reservations about the proposal to announce a regular series of publications. Mr Ridley has minuted with his full support.

4. It will be important to get across the point that the Treasury should be fully involved by the Department of the Environment in its work on these matters. Not only are there important potential public expenditure considerations, but there are much wider ramifications for policy towards international debt (through proposals for debt for forestry swaps etc) and indeed for taxation, where there is a risk that incautious language about the use of market signals to encourage environmentally-friendly actions could circumscribe the Chancellor's freedom of manoeuvre on tax policy.

5. I attach a draft minute from you to the Prime Minister, which registers the essential points. It supports the issue of an environment White Paper and an announcement at the Conference, but supports the Chancellor of the Duchy's reservations about a regular publication.

S N WOOD

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CONFIDENTIAL

DRAFT MINUTE FROM THE CHIEF SECRETARY TO THE  
PRIME MINISTER

ENVIRONMENT POLICY

Chris Patten's minute to you of 27 September recommends publishing a White Paper on the environment in the early Autumn of next year. Nigel Lawson and I would be content with that, and for it to be announced at the Conference, but we share Ken Baker's reservations about a commitment to an annual environment report. I do not believe we should decide this until we see how the White Paper develops.

On the substance of Chris's proposals, it will be essential to pay special care to what is said about the overall philosophy of the Government on environmental policy, and its future development. We must, for example, be very careful about what we say in public debate about the use of market mechanisms in relation to environmental policy, lest we create damaging uncertainties or expectations about the future direction of our tax policies. The same is true of very general statements about integrating the environment into economic and industrial policy or into economic statistics. The Treasury should be closely involved in the preparatory work, and I of course agree with the importance Chris attached to not prejudging or pre-empting issues which fall to other colleagues.

CONFIDENTIAL



**CONFIDENTIAL**

I am copying this minute to members of the Cabinet and Sir Robin Butler.

**N L**

**CONFIDENTIAL**



CHIEF SECRETARY	
REC.	- 6 OCT 1989
TO	Mr Edwards,
FROM	CX, FST, PMG, EST, SR PM MOD
	Mr Anson, Mr Phillips,
	Mrs Lomas, Mr Swoop,
	From the Private Secretary
	Miss James, Mr Comore,
	Mrs Chapman



*Handwritten initials/signature*  
MP

10 DOWNING STREET

LONDON SW1A 2AA

6 October 1989

CONFIDENTIAL

*Ch, I suppose it was only a matter of time... mps*

*Dear Roger,*

ENVIRONMENT POLICY

The Prime Minister was grateful for your Secretary of State's minute of 27 September. She has also seen the Chancellor of the Duchy of Lancaster's minute of 3 October, the Secretary of State for Trade and Industry's minute of 4 October and the Secretary of State for Energy's minute of 5 October.

The Prime Minister welcomes the proposal to publish a White Paper on the environment, which she notes he would like to publish in the autumn of next year; and she agrees that the Secretary of State should announce this at the Conservative Party Conference. The Prime Minister considers it important that the White Paper should be eminently readable and should have a strong scientific base. She thinks that it should be accompanied by updated version of the environmental leaflets issued by your Department, which she notes have been well received.

To coordinate the work of Departments in developing future policy towards the environment, the Prime Minister plans to set up and chair a Ministerial Group, details of which are attached. She suggests that Mr Patten should now circulate a more detailed policy paper to colleagues in advance of further work.

Your Secretary of State also suggested that a periodic "State of the Environment" report should be launched next year with the White Paper. The Prime Minister would not want any public commitment to do so to be given before we have a clearer idea of what such a report would look like. She would not therefore wish this to be announced at the Conservative Party Conference, as your Secretary of State proposes.

I am copying this letter to the private secretaries of members of Cabinet and to Trevor Woolley (Cabinet Office).

*Yours sincerely,*  
*Caroline*

CAROLINE SLOCOCK

Roger Bright Esq.  
Department of Environment

CONFIDENTIAL



MINISTERIAL SUB-COMMITTEE ON THE ENVIRONMENT COMPOSITION

Prime Minister

Chancellor of the Exchequer

Secretary of State for Foreign and Commonwealth  
Affairs

Secretary of State for Trade and Industry

Secretary of State for Health

Secretary of State for Education and Science

Secretary of State for Transport

Secretary of State for Energy

Secretary of State for the Environment

Minister of Agriculture, Fisheries and Food

Terms of Reference:

"To develop future policy towards the environment."





MP

Treasury Chambers, Parliament Street, SW1P 3AG  
01-270 3000

6 October 1989

Rt Hon Christopher Patten MP  
Secretary of State for the  
Environment  
Department of the Environment  
2 Marsham Street  
LONDON  
SW1P 3EB

cc Sir T Burns  
Mr Anson  
Mr Phillips  
Mr Monck  
Mr Scholar  
Mr H P Evans  
Mr Odling-Smee  
Mr Culpin  
Mrs Lomax  
Mr Mountfield  
Mr Spackman  
Mr R J Evans  
Mr S Wood  
Mrs Chaplin  
Mr Tyrie  
Mr Lightfoot  
Mr Chapman

cc CST,  
PMG  
Sir P Middleton

Dear Secretary of State,

I undertook at our meeting on 7 September to let you have some comments in writing on Professor Pearce's report on sustainable development. I attach a note by my officials.

The Report - and some of the material which accompanied its release - conveys the impression that sustainable development is an operational concept. Regrettably, this does not stand up. As parts of the Report honestly admit, there are severe difficulties in the valuation of environmental resources and impacts; often, they cannot even be quantified. This means that laudable-sounding objectives such as measuring sustainable income and taking account of it in decisions are, in practice, unlikely to be achievable in the foreseeable future.

A related point is that the so-called "integration" of environmental concerns into economic decision-making may be much more difficult than the Pearce Report appears to imply. We have to be very careful not to raise false expectations. I fully endorse taking account of environmental concerns; I also endorse making use of market mechanisms wherever these are possible, feasible and consistent with our policy on other issues such as taxation. But far-reaching integration of many aspects of environmental and economic decision making is likely to prove impossible.





The references to taxation, although in general terms, raise very difficult issues, both practical and political. It is very important not to encourage any assumption that future policy is directed towards the introduction of pollution taxes. For one thing, that simply is not the case at present. And although I should be happy to consider any specific proposals put to me, I have to say that there would need to be very forceful arguments for going down this road to offset its potential disadvantages. For introducing necessarily arbitrary pollution taxes would represent a considerable departure from our taxation policy hitherto. And, of course, to introduce any pollution tax unilaterally would merely disadvantage UK industry vis a vis its overseas competitors, without making any significant difference to the greenhouse effect. I am grateful that you have avoided giving credence to such speculation in your comments on the Report. That said, I agree it would be useful for your officials to do some work on marketable permits and pollution charges.

I understand that you and your officials are currently considering how to take forward Professor Pearce's work, beyond a recognition that the issues raised need to be pursued in the OECD and UN contexts. It will be important that the Treasury and indeed other interested departments are fully involved in this. Before further work is undertaken I should like there to be a thorough discussion between our officials, and then for you and I to agree on any future work programme. And it goes without saying that, if colleagues agree to your proposed White Paper, I should expect the Treasury to be fully involved in that too.

I am copying this letter to the Prime Minister.

Yours sincerely,

Muir Wallace

pp NIGEL LAWSON

(Approved by the Chancellor  
and signed in his absence.)



**OFFICIALS' COMMENT ON THE PEARCE REPORT**

The Pearce report has raised awareness of the need for incorporating environmental factors in economic decision-making. It puts a helpful case for conducting careful analyses of environmental factors and ensuring that they are put in an economic context. It is also a useful review of the available techniques for the monetary estimation of environmental values.

However, the Report's conclusions underplay the substantial practical difficulties in valuing environmental resources and integrating environmental and economic statistics. The text does acknowledge a number of the problems of valuation - for example, those entailed in environmental accounting, such as the arbitrariness of quality standards. But the Report is over-optimistic about problems such as measuring welfare losses due to pollution and depreciation in the natural resource base. Such statistical exercises can absorb considerable amounts of skilled resources, to little practical benefit. A related cause for concern is the wide range of answers likely to be generated in an attempt to value such environmental resources as forests and wetlands - reflecting probably inevitable difficulties with such techniques as contingent valuation. In this regard, the authors note that "much more work is required to adequately explain" the variability between willingness-to-pay and willingness-to-accept valuations. The Report points to our relative ignorance in these areas.

Perhaps inevitably for a report with such a wide sweep, there is little that appears to be operationally useful for policy formulation. This is implicitly recognised in the recommendations, which are mainly for further research.

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they have radically different implications. "Integrated economy-environment statistics" would be very costly to produce and of doubtful value in practice, given the enormous margins of error to which they would be subject. It is likely to be more productive to focus on major environmental problems (such as global warming and acid rain) case by case, and work through their particular economic linkages.

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The remaining recommendations are unlikely to have major economic implications in the short term. Some of these (eg work on how past growth has affected the environment, and on the idea of 'importing sustainability') are for academic research rather than for Government action. Some, such as investigating the effects of the energy and agriculture sectors on the environment, or revising Treasury guidelines, are activities which are in any case in hand to some degree. And some are simply not workable. For example, the recommendation that, for each public expenditure "programme" (not defined) "environment capital in the aggregate" should not be reduced, turns on there being an operational measure of environmental capital. Even if this were the case, which it is not, it is far from clear that this recommendation would be desirable.

To conclude, there is clearly a case for paying more attention to environmental costs and benefits and the Report is helpful in raising awareness of environmental issues and their link with economic decision making. It is a useful contribution to a developing debate. But however theoretically sound many of the Report's arguments may be, it is preferable for Government to



support work which is likely to generate outcomes which are useful in practice. The most cost-effective approach is likely to be to tackle specific environmental issues on their own merits rather than look for new comprehensive policies based on some overall philosophy of "sustainable development".





10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

7 October 1989

*personal folder*  
*→ Ambire*  
*pmg (environment)*

*Mike*  
*Thanks*

Dear Alan,

I thought you might be interested to see a copy of the enclosed letter from Dr Pearce and the Prime Minister's reply.

I am copying this letter to Duncan Sparkes in the Treasury.

*Yours sincerely,*  
*Caroline Slocock*

CAROLINE SLOCOCK

Alan Ring Esq.  
Department of Environment

CH/EXCHEQUER	
REC.	10OCT1989
ACTION	PMG. ✓
COPIES TO	

*10/10*





10 DOWNING STREET

THE PRIME MINISTER

7 October 1989

Dear Mr. Pearce,

Thank you for your letter of the 26<sup>th</sup> September. I read your report on the economics of environmental protection with the greatest possible interest. I am so pleased that you are now starting a course on Environmental Economics and wish you well.

Our policies have to be based



On Sound swire and Sound  
economics.

Yours sincerely

Nagant Dhalita



Department of Economics  
UNIVERSITY COLLEGE LONDON

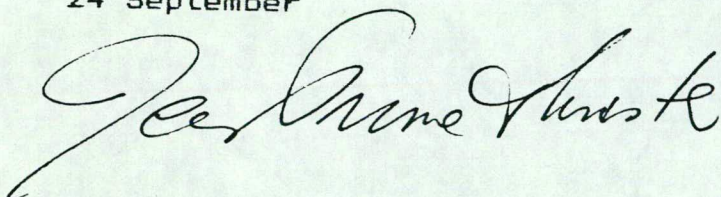
GOWER STREET LONDON WC1E 6BT

Telephone 01-387 7050 ext. 7037

Professor David Pearce

The Prime Minister  
The Rt Hon Mrs Thatcher  
10 Downing Street

24 September

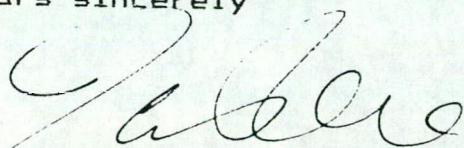


Environmental economics is now firmly on the agenda, very much because of the interest shown by yourself and your Cabinet. It is not widely known that there are less than a dozen experienced environmental economists in the UK, a result of there being no postgraduate training in the country. UCL has decided to put this right and the enclosed brochures indicate our proposed M.Sc course in environmental economics, starting autumn 1990.

We are now seeking sponsorship for studentships, fellows and back-up resources. UCL itself has made a significant contribution in terms of additional staff and we are approaching the private sector, of course.

I thought you might like to know of the initiative.

Yours sincerely



David Pearce

Special Environmental Economics Advisor to The Secretary of State for Environment.





CONFIDENTIAL

BF to mpa 5/11

2 MARSHAM STREET  
LONDON SW1P 3EB  
01-276 3000

My ref:

Your ref:

MP

The Rt Hon Nigel Lawson MP  
Chancellor of the Exchequer  
HM Treasury  
Parliament Street  
LONDON  
SW1P 3AG

CH/EXCHEQUER	
REC.	23 OCT 1989
ACTION	MR WOODS ✓ 23/10
COPIES TO	EST, PMG SIR P MIDDLETON, SIR T BURNES MR ANGLU, MR PHILLIPS MR MOUNCK, MR SCHOLAR MR HP EVANS, MR COLLING-SMEE MR CULPIN, MRS LOMAX, MR MOUNTFIELD MR SPACKMAN, MRS CHAPLEN MR YRIG, MR LIGHTFOOT, MR CHAFFMAN

20 October 1989

*J. W. J.*

#### PEARCE REPORT

You wrote to me on 6 October about the report by Professor Pearce.

I can assure you that I do not look upon the Pearce Report as a "philosopher's stone" which will enable us to answer all the questions raised by environmental issues. But Professor Pearce has done us a service in opening up the issues concealed in the concept of "sustainable development". He has raised a number of very important questions which we must address if we are to continue to develop a coherent and positive policy on the environment, the answers to which may lead to some useful general principles.

As you say, our officials must work very closely together on not only the matters raised in the Pearce Report, but also on the proposed White Paper on the Environment, and will obviously do so within the work programme which no doubt will be laid down by the new Ministerial Sub Committee on the Environment.

*Chris Patten*

CHRIS PATTEN





Thank you  
who wrote the  
offshoot paper?  
do you know?

Oh/ you may be interested  
to see this Lawson / Patten  
exchange re Prof. Pearce.  
The correspondence arose  
because NL was not at  
all happy about the  
backing DoE appeared  
to be giving to the Prof's  
tax enthusiasms.

Moir.