

PRIME MINISTER

MEETING WITH DAVID COPE, DIRECTOR OF THE CENTRE FOR ECONOMIC  
AND ENVIRONMENTAL DEVELOPMENT: 21 JUNE

You agreed to see Mr Cope for fifteen minutes or so to follow-  
up a discussion he had with you at the Global Warming  
Ceremony. *Conference* →

Mr Cope has only just sent me the attached list of the points  
he would like to cover, as well as background details on what  
CEED does. There has not been time to get any briefing on  
these issues but I believe that this is familiar territory.  
If there is anything specific you would like I can commission  
it in the morning. Mr Cope refers to Mr Ridley's pamphlet and  
I am enclosing one for reference.

As you will recall, CEED is a particularly interesting  
environmental group because of its emphasis on looking at  
environmental issues in an economic context. It also has  
close links with industry. This ought, therefore, to be a  
valuable opportunity for you to explain in greater depth your  
views. CEED aims, amongst other things, to encourage debate  
on environmental issues and to provide information (eg it  
publishes a Bulletin) and it may be that Mr Cope will want to  
publish your views through the organisation.

*CAS*

CAROLINE SLOCOCK  
20 June 1989

DS2ARE



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WHAT THE LATEST OECD FIGURES REVEAL

Compiled by Roger Highfield and Charles Clover from OECD Environmental Data — Compendium 1989, £26.50, available from HMSO, PO Box 276, London SW8 5DT.



**Air pollution**

According to the OECD the following "traditional" air pollutants contribute to ill health, loss of visibility or soiling. However, the definition of total emissions may vary because methods of estimation and measurement vary. (Figures for EEC countries only.)

**SULPHUR DIOXIDE**

Contributor to acid rain, product of fossil fuel combustion and also smelting and sulphuric acid production. Britain dirtiest.

	(1000 tonnes)
UK	4,836
France	3,512
Italy	3,211
Germany	3,187

**NITROGEN OXIDES**

Contributors to acid rain, greenhouse gases, photochemical oxidation pollutants as well as respiratory irritants. Arise from fossil fuel combustion particularly vehicle exhaust emissions. Germany the worst offender here, although Britain not far behind.

	(1000 tonnes)
Germany	2,935
UK	2,264
France	1,861
Italy	1,585

**PARTICULATES**

Particles arise from fuel combustion and from numerous industrial and agricultural practices.

	(1000 tonnes)
Spain	1,521
Germany	696
France	483
Italy	386
UK	290

**CARBON MONOXIDE**

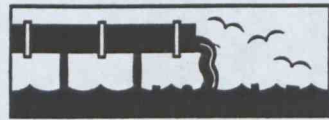
Contributor to carbon dioxide emissions.

	(1000 tonnes)
Germany	11,708
France	6,620
Italy	5,487
UK	4,999

**HYDROCARBONS**

Contributor to photochemical oxidation. Britain and Germany compete to be the dirtiest in Europe.

	(1000 tonnes)
Germany	2,490
UK	2,241
France	1,972
Italy	1,566



**Sewage**

% population served by waste treatment plants

Sweden	100
Denmark	90
Netherlands	90
Germany	86.5
Switzerland	85
UK	84
Finland	74
Austria	67
France	50
Spain	29
Portugal	12.5
Greece	0.5

**Research**

A comparison of the resources directed into environmental research is another way to assess Britain's resolve to help to clean up the environment. International statistics on Britain's environment research can be found in the annual review of government-funded research and development.

The British Government puts some £46 million into control of environmental pollution, a figure that is dwarfed by West Germany's, although favourable compared with the rest.

	£ million
West Germany	159
UK	46
Netherlands	28
Italy	25
France	23
Belgium	9

However, the picture is not so rosy if the research expenditure on the environment is compared with the overall spending on research. In Britain, the Government spends about one per cent of its research budget on controlling environmental pollution, beating only Italy and France who spend 0.9 per cent and 0.4 per cent respectively.

Britain also seems unwilling to contribute to bilateral or multilateral projects on the environment. Government figures reveal we spend nothing on such projects.

(R&D 1988: Annual review of Government funded research and development; Cabinet Office.)

**Carbon dioxide**

The figures that neither the EEC nor the OECD has yet compiled have, however, been compiled for the United States Department of Energy by the Oak Ridge Laboratory for 1986. Because carbon dioxide is a global pollutant we include figures for non-European

countries. These show the US itself, followed by Eastern Europe, to be the most profligate burners of fossil fuels and probably also the least energy efficient.

Per capita figures for production of fossil fuels in tonnes of carbon — each man woman and child in the following countries is responsible for this much CO2:

	tonnes
United States	5.0
Czechoslovakia	4.2
Bulgaria	3.6
USSR	3.59
West Germany	3.06
UK	2.94
Norway	2.1
Italy	1.65
Haiti	0.02



**Fertilisers**

Use of fertilisers — nitrates, phosphates, and potash — on agricultural land. Nitrates and phosphates can cause eutrophication of surface water. Nitrates can pose health risks to underground drinking water sources.

	tonnes/sq km
Italy	46.5
Germany	26.6
France	18.7
UK	14.5

**High-level reprocessing waste**

	metres cubed
UK	5,400
France	5,000
Germany	1,940
Belgium	460



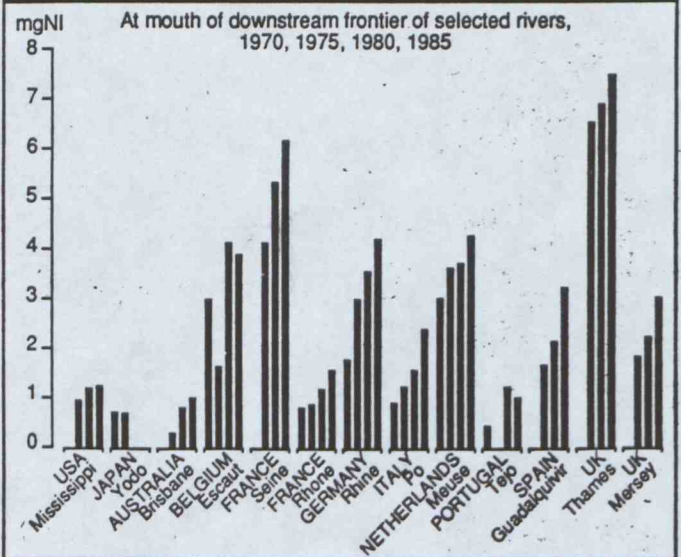
**Consumption of pesticides**

	1000 tonnes
Italy	161,697
France	85,922
UK	40,300
Greece	35,124
Germany	31,417

**Spent nuclear fuel**

	tonnes
France	43,750
UK	39,750
Germany	16,975
Spain	8,250

**WATER QUALITY - NITRATE CONCENTRATIONS**





File SW

MS. SINCLAIR

GREENERY

The Prime Minister has seen your minute of 16 June suggesting that she might make a major speech on countryside and conservation issues attaching an outline speech and asking for her agreement to work further on it.

She has commented that she has plenty of occasions in which she could make a speech of this kind but that she would like you to work further on your ideas before committing herself. In particular, she would be grateful if you could explore the scope for any new initiatives which could be announced in any speech. She mentioned that by November of this year we should have the Control of Pollution Bill. She also wonders whether we might include some of the ideas in your draft in the speech she will make to the Royal Agricultural Show.

Carline Slocock

19 June 1989

LIST OF POINTS FOR DISCUSSION WITH THE PRIME MINISTER  
21 JUNE 1989

These points arise from the Prime Minister's response to one of the observations which I made at the Seminar on 26 April and from the discussions which she and I had before lunch on that occasion.

**1. The electoral acceptability of environmental policies with long term pay-offs**

I observed that I thought it might be difficult to persuade the electorate to accept policies which involved costs in the present but would lead to results in only the longer term (say, not sooner than 10 years from now). The Prime Minister seemed to disagree and think that it was possible to make such policies attractive. I would like to discuss the basis of her belief. Is it reflected in her thinking as presented in her speech to the last Conservative Party conference, where she used terms such as 'guardians and trustees for generations to come' and 'a full repairing lease'?

**2. The role of regulation, vis a vis private sector initiative**

We discussed the role of regulation (I have also read Mr Ridley's observations on this in his recent pamphlet, which the Prime Minister has seen, I believe). I was impressed by the Prime Minister's analogy of regulation as the frame of a picture.

However, I would like to explore her views on the general extent and structure of regulation, given that it must necessarily require public resources, vis a vis the approach which uses fiscal incentives to send messages to private industry so that it responds directly with environmentally-appropriate initiatives.

At the seminar, I mentioned that I knew, for example, of one private sector company which was already exploring a fairly radical technical approach to the problem of urban traffic congestion and pollution.

**3. Nuclear power**

I share with the Prime Minister a conviction that this is far too important an option voluntarily to write off from a menu of future options for energy policy. One must recognise that there are, however, unique and deeply felt levels of public unease over the technology.

In particular I would welcome her views on the idea of a 'new start' for nuclear power, with research and development initiatives on new forms of smaller reactors, with 'inherent' safety features and wonder whether part of her global environmental initiative might not be for Britain to take a leading role in setting up international consortia to promote such new forms of nuclear power.



## HOW UK CEED OPERATES

UK CEED has a small full-time professional staff, a number of senior research associates and a Board of Directors drawn from leading figures with economic and environmental interests. It has close links with industry, trade associations, leading environmental organisations, central and local government departments, universities and other research bodies, enabling it to draw on outside expertise and experience and to encourage the exchange of ideas.

UK CEED staff provide an independent, objective advice service to the many organisations and individuals who contact the Centre. Staff also represent the Centre and its aims on numerous panels and study groups concerned with environmental policy.

UK CEED draws its financial support equally from three main sources: commercial and industrial organisations, large and small; trusts and charities with environmental interests; and government and public sector agencies responsible for environmental protection. In this way UK CEED is guaranteed an independent, authoritative voice.

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## WHAT IS THE UK CENTRE FOR ECONOMIC AND ENVIRONMENTAL DEVELOPMENT?

There are many organisations working to improve the UK's economic performance and numerous others concerned with environmental protection but the UK Centre for Economic and Environmental Development (UK CEED) is the only independent body concerned with promoting a productive partnership between environmental protection and development interests in the UK.

UK CEED's role is to develop policies and initiatives which further the economic well-being of the UK and at the same time protect the environment for the future through responsible, sustainable use of resources. UK CEED works with industry and commerce to ensure that development policies, investment decisions and operations incorporate the high environmental standards expected in a progressive society. In this way, such standards can be supported by the economic dynamism necessary for their achievement.

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\* Discussion papers have included:

- environmental implications and applications of biotechnology
- a case study of IBM UK Ltd
- inner city regeneration
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UK CEED has carried out a series of major research studies, with associated reports, covering the forestry industry, tourism and the use of market mechanisms as a regulator in air pollution control.

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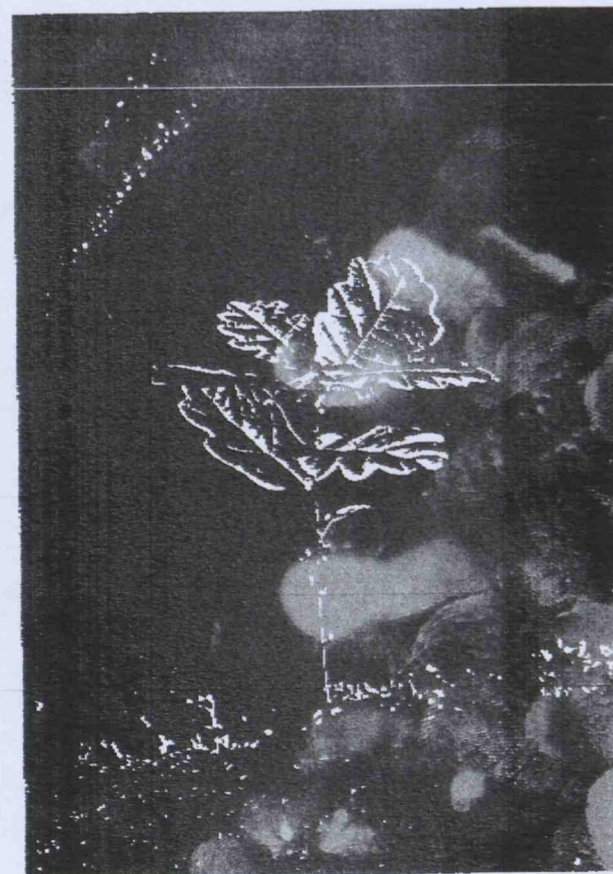
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The Secretary of State for the Environment argues that safeguarding the environment has always been, and continues to be, central to Conservative philosophy. In the fight against pollution – local, regional and global – it is essential to follow certain principles: that the powers of producers and regulators be kept totally separate; that ‘the polluter pays’ and that this be reflected in pricing; that scientific evidence be soundly assessed and (if the cure is not to be worse than the disease) that the best environmental option be always chosen; and that international agreements be vigorously sought. But it is only the creation of wealth which gives us the resources necessary to combat pollution; the overriding task is to execute policies for economic growth which the environment is able to sustain.

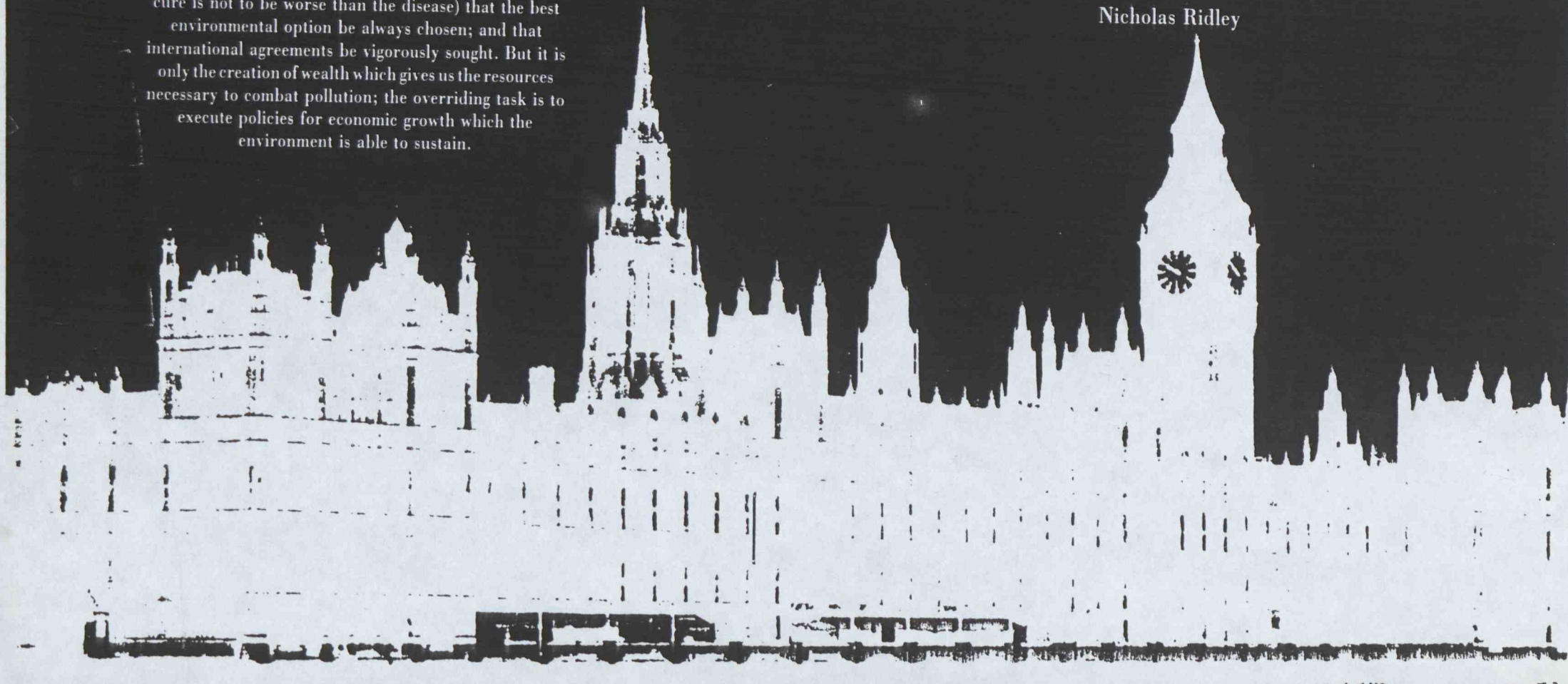


Policy Study No 107

# Policies against Pollution

## the Conservative record – and principles

Nicholas Ridley





## Preface

The Government's programme for environmental protection seems to have come as something of a shock to some of the less well informed commentators. Because they suddenly 'discovered' the issue following the Prime Minister's speech to the Royal Society on 27 September 1988, they assumed that no policy existed before, rather like the philosopher who claimed that things did not exist until he looked at them!

But Conservative action on the environment has a long history. The programme of this administration is impressive by any standards, and it builds on a long tradition of Conservative Government action. Indeed the most significant pieces of legislation on pollution have been passed under or initiated by Conservative Governments. The first Clean Air Act, which removed the scourge of smog from our towns, was passed under a Conservative Government in 1956. It was also a Conservative Government in 1972 that introduced the Deposit of Poisonous Wastes Act to control the movement and dumping of hazardous wastes. It was a Conservative Government which initiated the Protection of the Environment Bill in 1974, designed to deal with air, noise, water and waste pollution. This became the Control of Pollution Act 1974 under a Labour administration.

Conservative action on the environment thus predates this administration by many decades. The principle of all these pieces of legislation was government action to protect the public interest in environmental matters against the particular and competing interests of private and public sector companies and individuals.

There is nothing new in this, but again and again there is a lack of understanding about how the practice of environmental protection fits in with the philosophy of Conservatism. I am constantly being asked how as a free marketeer – which indeed I am – I can square my principles with the intervention which is necessary to ensure that the unfettered free market does not lead to pollution and environmental damage. Even a correspondent from that relatively well informed publication the *Independent* said it was 'hard to believe' that the Prime Minister 'leapt into her Royal Society speech without realising that it would in time become impossible to convey conviction without adulterating the purity of free market absolutism and engaging



in some brisk intervention and regulation'. That correspondent cannot have understood the basic principles of free markets. 'Free market' does not mean 'free-for-all'. It never has. It is an essential part of the free market philosophy that regulation by government is necessary to secure the public interest in environmental protection.

Such regulation is a central part of Conservative philosophy, but it is not part of the philosophy of socialism. To a socialist, public ownership is seen as synonymous with the public interest and the importance of separating regulation from production is not clearly perceived. Indeed I would argue that the experience of socialism in this country has shown that it has a tendency to destroy those checks and balances which ensure that society progresses and evolves in harmony with its environment. The purpose of this document is to explain how protection of the environment and our heritage is, and always has been, central to our philosophy and how the principles upon which we base our economic recovery create the means for achieving and enhancing that protection.

## Defining the environment

Perhaps I had better begin by defining what I mean by an 'environmental issue'. Ever since the press decided that the Government was 'green' after all, following the Prime Minister's speech in which she concentrated on the problems of global pollution, people have been saying to me 'Right! now that you're "green", stop that housing development down the road'. I have to tell them that I do not regard housing as a form of environmental pollution. 'Environment' is a very wide term, and you cannot talk sensibly in the same breath about the ozone layer and local planning policy. In this pamphlet I want to concentrate on pollution, because in the light of what we are beginning to understand about its effect on the climate, it poses an immense threat to the future of mankind and will pose immense challenges to governments throughout the world. It will assume tremendous political importance. It will require an understanding of the right principles to apply.

Pollution issues can be roughly separated into four groups, which overlap to some extent: local mess, localised pollution, regional pollution and global pollution. By local mess I mean the sort of pollution which can be remedied by individuals improving their behaviour – litter primarily, like old bedsteads in the ditch, and local noise pollution. By localised pollution, I mean pollution which is mainly local in its effects – such as pollution of rivers by sewage or pollution from mishandled waste. By regional I mean pollution which has a wide effect but is still within a defined area – pollution of the North Sea, pollution caused by lead in petrol, acid emissions from power stations. Then there are the global issues – the depletion of the ozone layer or the accumulation of 'greenhouse' gases in the atmosphere. This is pollution on a world scale and causes problems on a world scale.

I want to concentrate on the last three areas where government regulation and enforcement is the key to improvement and where the individual member of the public cannot do much directly to assist. Of course, it would be wrong to ignore the role of the individual. He can tackle the problem



## History of the parties

of local mess and keep his locality clean and neat. In Britain we are not, when it comes to the wider pollution issues, the 'dirty men of Europe', but when it comes to litter – the most visible form of pollution – we are. Yet it is a strange fact that while we continue to strew our streets with sweet wrappers and empty drinks cans, we also care deeply about our local environment. As a nation we are considered almost eccentric for our pride in locality, our interest in the beauty and history of our countryside, for our well-tended gardens, our love of wildlife and so on.

To those who do care and who would 'do something' if they had the power, the feeling of impotence in the face of such a massive problem is obvious from any MP's mailbox. But it is not something the Government can regulate or police because the polluters are too many and too undetectable. It is one of the themes of this pamphlet that the powers of regulation and the provision of a service should not be in the same hands. This rule of thumb can be applied to litter pollution. The job of cleaning streets and public areas is a local authority responsibility. While many accord it a high priority, others do not and so standards vary tremendously. There is no 'regulator' in place to call councils to account if they fail in their duty. The problem is local and the regulators and enforcers must also be local. It is local individuals – those who care most deeply – who should be given the task. Hence our proposals to give local people the right to call their local authorities to account if they fail in their duty. That duty will be set out in a code of practice.

The individual can get involved in pollution control in many ways, litter enforcement being perhaps the most effective. The best way to promote understanding of the wider pollution issues is when the individual experiences the responsibility in his own life. It reinforces Burke's analysis of how the individual acting at the most local level with others can learn to care about issues which affect mankind: 'To be attached to the subdivision – to love the little platoon we belong to in society is the first link in the series by which we proceed towards a love of our country and of mankind'.

The world will need such people in the next few decades.

It is a simplistic and erroneous belief that free marketeers must be opposed to any form of regulation of economic activity. It is perhaps true of the anarchist but has never been true of the free marketeer. It is accepted, for example, that a free marketeer believes that free competition should be fair competition. But for obvious reasons one cannot permit the competitors to decide what is fair. Where this is a risk, it is necessary to have an external regulator who does not have a financial stake in any of the competitive enterprises. Therefore we have built up a body of laws and institutions which set the framework within which free competition operates. Children cannot work down mines. Health and safety inspectors enforce standards of cleanliness and safety in the workplace. The Monopolies and Mergers Commission tries to ensure that consumers' interests are protected against the growth of anti-competitive monopolies and cartels by producers, as does the Director General of Fair Trading. Such laws and institutions are essential components of the free market. They are central to the Conservative view of the role of the State as enabler, regulator and setter of standards in the public interest, but not as a provider of services or producer in its own right.

That apostle of laissez-faire, Adam Smith, set out just such a role for the State. He argued that government should not intervene in the economic sphere except to enforce the laws preventing violence and fraud, and to sustain by taxation and public expenditure those few necessary activities, such as defence and criminal justice, which cannot be provided by private markets. There is nothing in principle so very different about pollution. Pollution, like fraud, is something you impose on others against their will so that you can perhaps gain financial advantage. It is an ill for which the operation of the free market provides no automatic cure. Like the prevention of violence and fraud, pollution control is essentially an activity which the State, as protector of the public interest against particular interests, has to regulate and police.

It is a consistent hallmark of this Conservative Government



that where the public interest and the producers' interests have not been clearly separated we have acted to separate them and to give the regulator legislative teeth to be able to enforce standards in the public interest. Where we do *not* believe in interference within a competitive market is in the setting of prices for the consumer. Entrepreneurs produce goods to make profits, and prices are the mechanism which allow them to make profits and automatically balance supply and demand at the same time. Wherever a competitive market exists, no interference in the freedom to set prices can be justified. One example is a policy which I pioneered at the Department of Transport: bus deregulation. The principle on which that policy is based is that the commercial side of bus services should be left to the market. However local authorities as the 'regulators' in the public interest have been given tougher and more explicit powers over safety and traffic management. In the true Adam Smith tradition they were given the powers to provide services which could not be provided by private markets because they would not give entrepreneurs a profit or would not be purchased voluntarily by all who benefit from them. The local authorities were given specific powers to subsidise unprofitable bus services. The Director General of Fair Trading was given enhanced powers to prevent monopolies and cartels developing. Publicly owned bus companies are either being privatised or – a second best – put at arms length from the regulatory authority, the council.

So where does the environment fit into all this? First of all let me recall why we believe in free markets. We do so because they have proven to be the best way in which people's needs as consumers are met and the quality of their lives improved. This is important for the environment in a number of ways. Wealth gives us the resources to protect the environment. Poverty can be disastrous for the health of our environment and the physical beauty of our surroundings. Those who believe as I do that the problems now facing agriculture offer opportunities for a better environment should not forget the considerable dangers there are to the environment resulting from low farm incomes, such as lack of investment in adequate slurry and silage equipment, which is the main cause of agricultural pollution of our rivers. This is something we are helping to tackle with generous grants to farmers for investment.

Looking around the world, the connection between wealth and environmental protection is obvious. It is the free western democracies with their advanced industrial base which are in the forefront of environmental protection. This is hardly surprising. First we have the wealth to afford it. Secondly a potent source of pressure on industry to practice better environmental standards is provided by consumer demand in a free market and the political demands of the electorate on the government. Indeed it seems that the more the economy prospers, and the less people have to worry about their financial security, the more concern there is about environmental matters. It is the less developed countries of the Third World where the problems of pollution are now chronic, and where the immense pressures to modernise as quickly and cheaply as possible threaten to keep them that way. It is no accident that the most horrifying pollution stories often seem to come from behind the Iron Curtain where production is not regulated by demand but by bureaucratic fiat. Poverty and corruption are potent causes of pollution and both are fostered by inefficient centralised economic systems. The remedy behind the Iron Curtain certainly lies in more *glasnost* and *perestroika* but there is a long way to go to catch up.

Free markets are a means to an end. They would defeat their object if by their output they did more damage to the quality of life through pollution than the good achieved by production of goods and services.

The public interest in environmental protection is – like the public interest in fair competition or safety in the workplace – something which has to be served by regulation by bodies with no financial stake in production. And contrary to the popular misconception, it is those who believe in free market economics who understand and practice this distinction most clearly. We have acted, often as part of the process of privatisation, to establish this clear separation of functions.

Socialists by contrast have never really understood the importance of this functional split. Indeed the socialist belief in the virtue of State ownership has tended to blind them to the distinction between the producers' and the public's interest. They make a distinction between public and private ownership. We distinguish between production and regulation in the public



interest. What after all is public ownership to the socialist but ownership in the public interest? With public companies under the control of government and the cosy if rather amorphous relationship which that implies between ministers and managers, and without the profit motive as the prime incentive to the producer, why should there be any need to police standards in the public sector as rigorously as in the private sector?

We all know that the practical experience of monopolistic publicly owned companies has not matched up to the ideal of public service in the public interest. The companies, and therefore the government and the public, became prey to the overriding interests of the producers who were the big public sector unions. The lack of competition often meant poor service to the customer. Public sector managers had to wrestle with the well-nigh insoluble conflict between their duty to meet financial targets set by government and their role as setters and enforcers of their own environmental standards. The power of the big public sector unions in the economy and within the constitution of the Labour Party tended to mean that their interests not only took precedence over the interests of the consumer but over the best environmental practice. Coming as they often did from the polluting industries of the 19th Century, some of the unions have in fact become a force against environmental improvement. Why in this country have we been so dependent on coal despite the fact that it is one of the most polluting of all sources of energy and despite the massive losses sustained by the industry over the years? One obvious reason is the enormous muscle power of the NUM which until the 1984 coal strike was thought almost invincible. The power of unions like the NUM within the Labour Party of course make it very hard for even the most well intentioned socialist to contemplate policies that might call into question the goal of ever-increasing coal production. It is seldom pointed out that the inevitable result of greater and greater coal production for electricity is more pollution – and that pollution is avoidable by using other sources of energy.

Nuclear power creates no greenhouse gases and with proper safety controls is clean and safe. Yet socialists in this country continue to be opposed to nuclear power for entirely irrational reasons or for no reason at all. At their last annual conference the SLD voted to phase out nuclear power for

electricity generation and voted down a proviso that would have allowed nuclear power when it 'proved to be both safe and commercially viable in comparison with other forms of electricity generation'. Anti-nuclearism is more of a religious faith to such people than a reasoned policy. Perhaps the original proponents of nuclear power might have done us all a service had they decided to call it something else.

Central ownership of the means of production puts two quite different functions into the hands of government – production and regulation. In all countries where the short-term interests of the producer can be served by polluting the environment, pollution is more likely to be permitted by governments where the government itself is the polluter and where it has to find the money to put things right.

Socialists continually demonstrate this dilemma. For example, following the Piper Alpha disaster, Labour's spokesman complained about what they called the 'conflict between (the Department of Energy's) responsibility for production and for safety'. A few months later I was vigorously attacked for proposing a similar separation of the powers of production and environmental protection for the water industry. In fact, in the oil industry, production and safety interests are separate. The inspectorate for oil rigs is an independent inspectorate within the Department of Energy. The Secretary of State for Energy has no conflict of interest, although the potential for conflict certainly existed when the Government had a direct financial stake in the oil industry and when the Government was giving BNOC ambitious financial targets. In the water industry on the other hand, that conflict of interest certainly exists now and yet socialists have failed to see it. In a splendidly muddled statement John Cunningham, the Labour Party's environment spokesman, spelt out the party line: 'We in the Labour Party believe that this natural resource and the water industry's assets should be publicly owned and controlled. They should be managed openly and efficiently in the public interest . . . Unlike the Tories we do not believe that an essential resource such as water should be managed and sold for private gain. For us public health and hygiene are not matters to be dealt with by market forces.'

I entirely agree with John Cunningham's last sentiment,



but what that quotation illustrates all too clearly is the inability of the socialist to understand how these interests are given full protection – far greater than they had before – by the provisions of our Water Bill. The trouble is that time and again socialists confuse concepts which should be totally separate: public ownership with public interest, production with environmental protection. Though some are waking up to the distinction between these concepts (Neil Kinnock spoke on 20 March of the Government's role being 'to facilitate, to regulate and to participate') the bedrock of socialist philosophy is 'you can't regulate when you don't control', and 'you can't control when you don't have ownership'. And as far as one can gather this philosophy is still the basis for much of the Labour Party's present policy review.

In fact it is absolutely central to the free market approach to environmental matters that the opposite is the case. You cannot or should not regulate if you also own. And if you regulate, it is better that you do not own. The water industry is a good example of the problem. Under public ownership, the industry is the only discharger of sewage effluent, yet it is also the 'policeman' for water quality standards. The industry has long struggled to manage the inherent conflict between its role as provider of water and sewerage services and as protector of the cleanliness of our rivers, estuaries and bathing waters. Sometimes this conflict has been to the detriment of the environment. The under-investment in the water industry which occurred in the late 1970s meant cut-backs in investment programmes, sewage treatment in particular, which should have gone ahead on environmental grounds. We are still paying the price for the under-investment with the problems of pollution of Britain's rivers and beaches by sewage. The situation is improving and the National Rivers Authority will ensure that it continues to improve at an accelerating pace. But recent experience demonstrates that public ownership would cause the regulatory rules to be waived when there was a conflict with the need for economies.

Another example is the practice of waste management by local authorities. They are both the regulators and policemen for waste disposal sites but they also provide some of the waste disposal sites and manage them in their own right. Successive

reports of the Hazardous Waste Inspectorate – now Her Majesty's Inspectorate of Pollution (HMIP) – show that the standard of these sites varies from extremely good to appallingly low. Clearly many local authorities have let their interests as providers of the service take precedence over their interest as regulators and enforcers of pollution standards by cutting costs to a minimum.

There is another key concept which socialists have never really understood and that is that the polluter should pay for the costs of pollution. Of course they understand the point if one restricts the definition of polluter to the fat plutocrat smoking cigars in the back of his Rolls Royce. But the logic of the polluter paying is that the polluter's customers pay. Each polluter is merely supplying the demand of his customers who willingly consume the chemicals, weed-killers, electricity, gas, water, petrol or other substances from which the public benefit. But the consumer is also the pensioner, the one parent family, the inner city resident: that is where, as in pricing policy generally, socialist logic leaves the rails!

Prices which reflect the long-term costs, including the environmental costs of producing a product, are the essential components of environmental protection and conservation. It was actually the last Labour Government which stated the case for economic pricing (in energy) very well. 'Policies will be working under a severe handicap if price signals are not pointing in the same direction. Energy prices should give both consumers and producers reasonably accurate signals about costs of energy supply. Under-pricing encourages consumers to waste scarce resources and may discourage additional supplies' (*Energy Policy White Paper Cmnd 7101 February 1978*).

Unless we attach costs to environmental protection, customers will not be getting the right signals to influence the consumption of the product which gives rise to the pollution. Some environmentalists have laid all the stress not on pricing policy but on direct energy efficiency measures. While these have their place, they cannot be divorced from pricing policy. For example there is evidence that households take up some of the opportunities for cheaper heating offered by better thermal insulation and higher standards of thermal comfort. The key to any conservation policy must remain pricing.

The cost of eradicating pollution is only one component in



the cost of any product. But the principle of market pricing is that the price to consumers should reflect and cover all costs. Where there is no free market and the Government effectively sets the price in negotiation with the producer – the nationalised industry or privately owned monopoly – the same principles should apply by regulation. Neither in practice nor in theory do socialists seem to understand these principles. Direct price controls and subsidies for essential products are seen by socialists as cardinal weapons to combat inflation although they are in fact nothing of the kind. Remember how in the 1970s prices of certain essential products – gas for example – were held well below the cost of production. The result was that in 1979 the British Gas Corporation was selling gas to domestic consumers at a loss. The unreasonably low price of gas led to increased demand by consumers, outstripping BGC's ability to supply. Many industrial consumers found themselves unable to negotiate supply contracts with British Gas. Remember also how the Labour Government's panoply of price controls which affected petrol as well as other commodities, led to a threat of petrol shortages. By 1979 they were considering rationing as a solution to the mismatch between supply and demand. The new Conservative Government quickly found a more effective solution in abolishing price controls! It seems very odd that a government could tie itself into such knots when the solution was so very simple. But we must never underestimate the power of the fundamental socialist belief in the virtue of State intervention in the working of the free market to achieve social or political aims. A socialist who recognises the free market as a solution to the problem would hardly be a socialist.

The point is relevant to the environment because pricing policy is the most potent weapon in our green armoury. Holding the price of commodities below their true costs tends to mean that the interests of the environment and conservation get lost to political expediency. Consumers should be getting the right signals about the real long-term costs of what they are consuming – costs which reflect the availability of the commodity and the need for investment in pollution control. At the time of government-imposed price controls, they were not given these signals. As a result in many areas they consumed too much. The fundamental key to any successful programme of pollution

and conservation is pricing. Consumers regulate their use of products when it is in their financial interest to do so.



## Conservative environmentalism in practice

This is not the place to provide an exhaustive list of measures taken by Conservative Governments since 1979 to protect the environment. The purpose of this pamphlet is to explain the intellectual foundation of these actions. However some examples will serve to draw out these themes and illustrate some principles which guide us.

### **The first principle – separating regulation from production**

Our Water Bill puts into effect the principle of separation of powers of the producer and regulator. It represents the most significant step forward in environmental protection for many years. A new public sector body, the National Rivers Authority will assume responsibility for water resources regulation and planning, environmental quality and pollution control, land drainage and flood protection, fisheries, conservation and recreation. These are the functions, the 'public interest' functions, over which the community at large represented by the Government needs to exercise control. This body will police and enforce a framework of environmental standards set by Government. The NRA will be under a legal obligation to achieve statutory water quality objectives. Its powers will include the ability to grant or refuse effluent discharge consents and consents for sewage effluent, powers to protect areas of land from pollution by nitrates and pesticides and stronger powers for the control of dangerous substances. These powers will be backed up by a system of fines payable to consumers by water companies whose water quality does not achieve the statutory objectives. The commercial water supply and sewerage services will be provided by Water PLCs which will be sold to the private sector. Private ownership gives consumers a guarantee that water quality will not be compromised for wider economic objectives. There will be no government financial targets for the water companies. They will be given clear directions by the NRA and they will have free access to private capital markets in order to

ensure that the necessary investment goes ahead.

In January this year, following a review set up in 1986, we announced our proposals for a wholesale reform of the law relating to waste disposal by local authorities according to exactly the same principles of separation of powers. We will establish national standards of regulation for local authorities' waste management functions which will apply equally to public and private sector facilities. There will be greater public accountability by all authorities with statutory powers for HMIP to examine and report on the way in which authorities carry out their functions. There will be clearer and better targeted default powers exercisable by government. Local authority waste disposal companies will operate at arms length from their parent local authority in full competition with the private sector. Waste collection authorities will be responsible for the disposal of the waste they collect and will be required to seek tenders. Waste disposal authorities will become waste regulation authorities with a statutory duty to implement national environmental standards of waste disposal.

### **The second principle – the polluter pays**

Coming on to the second principle that the polluter pays, our policy since 1979 has been that prices to consumers should reflect the costs of provision including the need for investment in environmental protection. This ensures that the consumer is given price signals which influence his consumption and help us to achieve our environmental objectives. This does not mean excessive price increases. While prices must be realistic, our policy has been to control relative price inflation by backing the efforts of management in nationalised industries to exert a steady downward pressure on costs by curbing excessive wage demands and improving efficiency.

### **The third principle – scientific evidence**

Whenever we act to curb some polluting activity we must have some reasonable scientific evidence that the activity is likely to be harmful, the cause of it, and that our actions are likely to be effective. It is seldom mentioned by those who demand action that a cleaner environment costs money. The costs have to be borne by the polluter and ultimately by his customers. Imposing



extra cost burdens has an effect on industrial competitiveness. If we in this country unilaterally took all the action, sensible or half baked, that we are urged to take on the flimsiest scientific evidence, we could easily price ourselves out of world markets. And as I have argued before, economic decline, or the nil or negative economic growth scenario which some environmentalists still yearn for, is not a good foundation on which to build good environmental policy. Of course there will be times when the possible consequences for the environment are so great that action has to be taken in advance of scientific certainty. That is the 'precautionary approach'. It was that approach which we adopted in part by signing a series of agreements last year to reduce pollution in the North Sea. But it is basically an unscientific approach and is necessary much less often than is sometimes thought. There is always the risk of taking the wrong action. The best approach will usually be to analyse the facts first and then take the appropriate science-based action. That approach also means that the cost effectiveness can be properly considered.

In the case of acid deposition for example, once the evidence and scientific analysis was convincing the Government acted decisively. Acid deposition is a complex matter. But scientific evidence showed that when very thin soils overlie granite bedrocks acid rain leaches aluminium from the soil. It is the aluminium salts rather than the acidity which is lethal to adult fish. Acid rain has also been held responsible for the poor condition of forests all over Europe. However poor tree health is experienced patchily and in many different pollution climates. In some areas of Continental Europe it may for example be influenced by secondary pollutants such as ozone to which other sources like car exhausts are major contributors. Unless we understand the problem, we can not find the right policies to tackle it.

On the basis of the evidence about acid rain and the role of Britain's power station emissions, we set in hand one of the largest programmes of desulphurisation in Europe. We pledged ourselves as long ago as September 1986 to a programme of retro-fitting flue gas desulphurisation equipment to coal fired power stations with a total capacity of 6,000 megawatts. In order to cut emissions of nitrous oxides, we also decided to retro-fit

all 12 of our major coal fired power stations with low nitrogen oxide (NOx) burners. We required all new power stations to be similarly equipped. We have recently gone even further. We agreed in June last year to further major action to cut sulphur emitted from large combustion plants. In total this action will cost around £1.8bn but it is money well spent. Again this is government regulating and enforcing environmental standards on what others provide. It is the polluter and the polluter's customers who will have to pay for it.

Evidence about the effect on health of lead in the environment persuaded us to reduce its levels wherever possible including in petrol. In December 1985 we reduced the permitted amount of lead in petrol by over 60% to 0.15 grams per litre. As a result levels of lead in the atmosphere have been halved. We introduced and subsequently increased the tax differential in favour of unleaded petrol. We are working with the petrol and motor industries and consumers and environmental groups to encourage its uptake. Anyone who needs proof of the importance of the price weapon should remember the dramatic effect of the 10p price differential announced in the March budget on the availability of lead-free petrol and also on its use. Well over 7,500 stations are now selling unleaded petrol and there will be many more. Removing lead from petrol is essential as a first step if we are to implement all the optional standards specified in the Luxembourg Directive on car emissions. They are the tightest which can be imposed by Members of the States and Britain has decided to apply them all. Again the principle is government-imposed environmental standards on what others produce.

#### **The fourth principle – best practical environmental option**

The fourth principle is that you must look to the secondary effects of pollution. In removing pollutants from the air it may be that the same pollutants find their way into the water supply and are in fact more damaging. We have to accept that many essential activities generate waste products which are potential pollutants. If we cannot eradicate or recycle these waste products then the best available means of disposal has to be found. Even the measures we take to clean up our environment can have unfortunate environmental consequences of their own. These have to be assessed. For example taking sulphur dioxide out of



power station emissions requires us to quarry vast quantities of limestone which is often to be found in our most scenic areas. It also generates large amounts of by-products, such as gypsum, which have to be disposed of somehow. It also means emitting more carbon dioxide because of the reduced energy efficiency and the conversion of limestone to gypsum. The 'best practical environmental option', as it is called, is a new term, but the concept has been applied informally for many years. Again it requires the skilled judgement of a regulator – separate from the producer – to make effective.

The establishment of our HMIP brought together the regulation of pollution of air, water, wastes and radio-active wastes to develop an effective framework for integrated pollution control. In July 1988 we announced our proposals to legislate for a system of industrial pollution control which treats the environment as an integrated whole and seeks the best outcome for the environment in the authorisation of industrial processes. Our proposals on industrial pollution control put us ahead of the game in this area.

#### **The fifth principle – international action**

The international dimension of our efforts brings me to my last principle. The scale of some problems requires that we seek international agreement on measures to reduce regional or global pollution. Unilateral action in such cases is ineffective and can easily become self-defeating. Such pollution knows no boundaries and one country's production can become another's pollution. Moreover pollution control brings costs and, unless international agreements are reached on common goals or standards, the measures necessary to reduce pollution may make our industry uncompetitive in world markets if we alone incur these costs. Under the Prime Minister's leadership we have enormous influence in international negotiations and we should use and are using it to achieve world agreement on environmental matters.

## **Sustainable growth**

Over the last decade or so international attention has increasingly become focussed on the problem of ensuring that modern development on this planet takes place at a pace which the earth's environment can sustain. There is growing evidence that the measures we take to serve our short-term interests are damaging the long-term interests of the environment. The Brundtland Commission's report of 1987 drew attention to the problems over a wide range of issues. Its fundamental conclusion was that nil economic growth was not an option. Economic growth is a necessary pre-condition for environmental improvement but it is possible and necessary to plan for economic growth which is environmentally sustainable.

Britain was the first country to publish a full response to the Brundtland report endorsing its principles and setting out a practical programme of measures implemented by the British Government to ensure sustainable development and to take the discussion forward internationally. This has given us a key position in leading international discussion further.

Let us turn back once again to the Prime Minister's Royal Society speech. In that speech she drew attention to a major issue which will confront governments in all countries over the next few decades, that is, the effect on the environment and atmosphere of the increase in so-called 'greenhouse' gases – carbon dioxide, methane and chlorofluorocarbons – which has led to fears that we are creating a global heat trap which will lead to climatic instability; second, but connected, is the discovery of a large area of severe depletion in the ozone layer which protects life from ultra-violet radiation.

In March this year we hosted an international conference on 'Saving the ozone layer'. This aimed to bring about further progress internationally on measures to halt the accumulation of chlorofluorocarbons (CFCs). We believe, based on scientific evidence, that these are the chemicals mainly responsible for the erosion of ozone in the upper atmosphere. In 1987 we ratified an agreement in Montreal to reduce CFCs by 50% by 1999. We are on course for achieving this target by the end of 1989, 10



years ahead of schedule. And we now believe, (and recent research suggesting levels of CFCs in the northern hemisphere are far higher than we originally thought lend weight to this) that worldwide emissions of CFCs need to be eliminated entirely as soon as possible.

The London Conference was an outstanding success: 123 nations attended. Before the conference, 33 nations had ratified the Montreal Convention. After it, 20 more looked set to ratify it. More still returned to their countries for discussions and we hope they will shortly ratify as well. Even those who did not attend, cannot fail to be aware of the urgency of the problem and the means of tackling it, and we will continue to work to bring them into the process. The conference was a watershed in world history. For the first time ever the world was united in its determination to act on a threatening global problem.

That spirit will be needed again when we come to the much more complicated issue of the greenhouse effect. Indeed agreements on limiting production of CFCs might prove to be the easiest of the measures which Governments will have to take. Knowledge is much less well advanced in understanding the greenhouse effect. We know that there is an accumulation of gases in the atmosphere which interfere with the process of heat loss from the earth's surface. Carbon dioxide is the most important of these. Levels of carbon dioxide in the atmosphere have already increased by some 25% since the Industrial Revolution and are expected to increase by perhaps as much as a further 30% in the next 50 years. But other gases contribute to the greenhouse effect as well; these include methane, resulting from certain agricultural practices and waste disposal, and CFCs. On some estimates the effect of these could be to bring about a global warming of between 1.5 and 4.5 degrees centigrade by 2050.

The fact that there is such a wide variation in these estimates of temperature change, and the implications this has for any possible rise in sea level due to the melting of land-based ice and the expansion of the sea, mean that more scientific evaluation is needed. The UK Meteorological Office is one of the four world centres with a computing capacity to model the world's climate. Its Director is leading the United Nations Environment Programme/ World Meteorological Organisation

Group which is examining the science of climatic change.

When firmer scientific evidence is forthcoming (and this should be within the next few years), governments will have to get together to agree to cut back on those processes which release greenhouse gases. These agreements might range from reductions in consumption of energy from burning fossil fuels (one means to achieve this might be to impose a carbon 'tax' on fuels causing the problem proportionate to the carbon dioxide they emit in order to encourage consumers to turn to less polluting forms of energy) to strategies for halting the destruction of the rain forests and help for less developed countries to invest in non-polluting forms of energy production.

These are major issues which will need the most determined and effective international political leadership. One major area where we want to advance international co-operation further is in costing global environmental damage. We are funding a programme of research in this country designed to quantify environmental damage as an element in national balance sheets. At present the environmental costs of global pollution are 'externalised'. They are costs to be paid for by future generations. When rain forests are cut down and the timber exported, this results in a credit to the balance sheet of the country concerned. The 'debit' in the form of environmental damage is hidden but will be paid for by that country and the world in years to come. The debit is not quantified now in national balance sheets but it should be if governments are to make informed judgements about whether to pursue policies of that sort. This takes the principle of 'the polluter pays' to a more sophisticated level. When the process of climatic change is more clearly understood, the same principles will have to be brought to bear on emissions of carbon dioxide and other greenhouse gases.

We are a long way from understanding the nature of the problem we face, and we have to keep an open mind about the appropriate responses. At the grimmest end of the scientific prognosis this problem makes all other environmental issues pale into the background. I would be the first to say that party political beliefs of any sort should not be allowed to stand in the way of effective action. However, the principles I have outlined in this pamphlet, which have always underpinned Conservative



policies at the level of local and regional pollution, provide us, I believe, with a sensible starting point. To sum up, these are:

- The principle of the separation of public interest in pollution control and regulation from the practice of production. At an international level governments across the world will have to agree to regulate pollution by producers in their own countries.
- The principle that the polluter, i.e. the polluter's customers, must pay. This principle underlies the research into costing global environmental damage.
- The principle of scientific evaluation. Convincing scientific evidence is needed if we are to adopt effective controls and to get agreement internationally.
- The principle of 'best practical environmental option'.
- The principle of international action.
- The emphasis on sustainable development as the only realistic way forward.

At no time in our history has the need for international co-operation been more urgent. The thawing in relations between East and West and the improved prospects for peace in many areas of conflict may, one sincerely hopes produce a situation in which our common interests as a human race can be perceived above national differences.

We have in this country a Prime Minister who has made Britain a real force in world politics and who is looked to by leaders throughout the world for her achievements in turning this country round, a task that seemed impossible in 1979.

The world will need enlightened leaders in all countries. Britain will play its part, often a leading part. This pamphlet explains why that leadership must remain Conservative.

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