De Økonomiske Råd

The Environmental Economic Conference 2024

Presenter: XXXX

Environmental regulation informed by biased stakeholders

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Abstract

Many regulatory decisions in democratic societies rely on public consultations. Experts, scientists, and stakeholders are asked to contribute to the collective decision by expressing their views in reports and oral communication. In the EU, legislators have established various institutional devices requiring agencies to consult stakeholders and the general public to fulfill their informational needs regarding the sectors they should regulate. For instance, the publication of the White Paper on European Governance in 2001 by the European Commission established the widespread use of public consultations to increase the openness and representativeness of policy decisions.

In this paper, we investigate how environmental regulations informed by biased stakeholders should be designed. By modeling the consultation process as a cheap-talk game, we develop a series of hypotheses concerning how biased information affects regulatory outcomes and examine such hypotheses in the case of chemical regulation in Europe. Chemical regulation in Europe is a particularly suitable case study since conflicts about chemical risk and safety involve various stakeholders with competing positions. Furthermore, the European Union has one of the most extensive and transparent consultation regimes, allowing us to gather information on the inputs from different stakeholders on public consultations and connect these inputs to actual regulatory outcomes.

Our theoretical framework delivers two main hypotheses. First, we show that firms are more likely to oppose regulation than environmental organizations. Second, we show that regulators are more likely to make the right decision when they follow the recommendation of the stakeholder, who is less likely to make such a recommendation. Thus, the regulator is more likely to regulate a product if she receives such advice from a firm than from an environmental organization. Reversely, she is more likely not to regulate a product if this is advice by an environmental organization.

Our data reveals some interesting patterns that provide support to our theoretical framework. First, we observe that comments by firms are mostly provided for chemicals with high economic value. In contrast, comments by NGOs and environmental organizations are mostly provided for chemicals with high damage. Second, we observe relative support for regulation by firms and NGOs/Env. Organizations vary with the properties of the chemicals. In particular, we observe that firms are a heterogeneous group, where some firms support the regulation of hazardous chemicals. Even if there is also a certain level of heterogeneity across organizations, they mostly and unanimously tend to support regulation. Finally, in line with our predictions, we observe that regulators care more about the relative support for regulation from firms than organizations. In contrast, the relative support provided by NGOs and Environmental organizations does not yield statistically significant effects.