

Consumers need better protection against the cost of environmental regulations

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Tighter environmental regulations can boost industry profits and drive up costs for consumers, finds research from Aalto University School of Business.

Professor of Practice Iivo Vehviläinen at Aalto analysed data on 129 million bids in the Nordic electricity market to reveal the market impact of regulations that protect the biodiversity of river ecosystems but also reduce Finland's capacity for generating hydropower electricity.

Meeting the EU Biodiversity Strategy target of restoring 25,000km of rivers to a free-flowing state by 2030 would mean closing at most 56 MW of hydropower generation in Finland, he says.

He calculates the cost of removing hydropower dams would lead to €62 million in welfare losses over time, not accounting for environmental benefits, while electricity market price rises would increase revenue for other electricity producers by €318 million over time.

This leaves much of the cost of implementing environmental protection regulations currently at the door of consumers.

This is because, in a competitive market, if consumer demand remains static despite price changes, tighter regulations will raise prices so industry profits increase and consumers end up paying for lost production and additional industry gains, says Vehviläinen.

The findings suggest that instead of lobbying against environmental regulation, agreeing to industry-wide implementation could be beneficial for both corporations and biodiversity.

However, regulators and policymakers should consider how to balance the costs and benefits of improving the ecological status of rivers between consumers and producers before introducing such policies.

"Higher prices may reduce political acceptance of regulations and have equity implications if the economic burden is higher for low-income households. This is especially true for electricity and other necessity goods that face multiple pressures from climate change mitigation to biodiversity protection and to other policy areas," says Vehviläinen.

This research was published in the Journal of Environmental Economics and Management.

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