

Sustainable Use of Natural Resources in the Context of Trade Liberalization and Export Growth in Indonesia

A Study on the Use of Economic Instruments in the Pulp and Paper Industry

Foreword

During Indonesia's economic growth oriented paradigm of the 1980s – 1990s, natural resources and the environment were regarded as free goods (or factors of production) and the costs of using natural resources were not internalized into production costs. This approach has led to a negative situation in which natural resources are over used and environmental services are under valued, which disturbs the natural balance. The perception that environmental resources are free should be discontinued because this approach creates high environmental costs and social inequities, in particular for the people who are not using those natural resources directly. For these reasons and to achieve sustainable development, the Indonesian Government needs to design development policies, including trade-related policies, that will internalize the costs of pollution and environmental damage into an activity's production costs.

Current environmental policies and the institutional framework of Indonesia's industrial sector do not adequately address the negative impacts of export growth resulting from trade liberalization. Environmental management in Indonesia has relied on command and control approaches, which have many limitations in addressing adverse impacts, especially in the industrial sector. The use of economic instruments in environmental management is fast becoming an alternative approach, particularly for pollution control and damage to the environment. This study proposes the use of economic instruments to address and mitigate the negative impacts of pollution caused by the pulp and paper industry.

However, environmental policies are part of a complex system of existing and proposed government actions. In competition with other government actions and objectives, economic instruments for environmental protection must be able to operate effectively with other policies already in place, and the responsible institution will need adequate capacity to carry out an additional set of highly sophisticated activities. In other words, any proposed economic instruments must be compatible with national regulatory objectives and existing legislation. The National Effluent Charge for the pulp and paper industry proposed in this report should meet these criteria.

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United Nations Environment Programme

The United Nations Environment Programme (UNEP) is the overall coordinating environmental organization of the United Nations system. Its mission is to provide leadership and encourage partnerships in caring for the environment by inspiring, informing and enabling nations and people to improve their quality of life without compromising that of future generations. In accordance with its mandate, UNEP works to observe, monitor and assess the state of the global environment, improve the scientific understanding of how environmental change occurs, and in turn, how such change can be managed by action-oriented national policies and international agreements. UNEP's capacity building work thus centers on helping countries strengthen environmental management in diverse areas that include freshwater and land resource management, the conservation and sustainable use of biodiversity, marine and coastal ecosystem management, and cleaner industrial production and eco-efficiency, among many others.

UNEP, which is headquartered in Nairobi, Kenya, marked its first 30 years of service in 2002. During this time, in partnership with a global array of collaborating organizations, UNEP has achieved major advances in the development of international environmental policy and law, environmental monitoring and assessment, and the understanding of the science of global change. This work also supports the successful development and implementation of the world's major environmental conventions. In parallel, UNEP administers several multilateral environmental agreements (MEAs) including the Vienna Convention's Montreal Protocol on Substances that Deplete the Ozone Layer, the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES), the Basel Convention on the Control of Transboundary Movements of Hazardous Wastes and their Disposal (SBC), the Convention on Prior Informed Consent Procedure for Certain Hazardous Chemicals and Pesticides in International Trade (Rotterdam Convention, PIC) and the Cartagena Protocol on Biosafety to the Convention on Biological Diversity as well as the Stockholm Convention on Persistent Organic Pollutants (POPs).

Division of Technology, Industry and Economics

The mission of the Division of Technology, Industry and Economics (DTIE) is to encourage decision makers in government, local authorities and industry to develop and adopt policies, strategies and practices that are cleaner and safer, make efficient use of natural resources, ensure environmentally sound management of chemicals, and reduce pollution and risks for humans and the environment. In addition, it seeks to enable implementation of conventions and international agreements and encourage the internalization of environmental costs. UNEP DTIE's strategy in carrying out these objectives is to influence decision-making through partnerships with other international organizations, governmental authorities, business and industry, and non-governmental organizations; facilitate knowledge management through networks; support implementation of conventions; and work closely with UNEP regional offices. The Division, with its Director and Division Office in Paris, consists of one centre and five branches located in Paris, Geneva and Osaka.

Economics and Trade Branch

The Economics and Trade Branch (ETB) is one of the five branches of DTIE. Its mission is to enhance the capacities of countries, especially of developing countries and countries with economies in transition, to integrate environmental considerations into development planning and macroeconomic policies, including trade policies. ETB helps countries to develop and use integrated assessment and incentive tools for sustainable development and poverty reduction. The Branch further works to improve the understanding of environmental, social and economic impacts of trade liberalization and the trade impacts of environmental policies, and to strengthen coherence between Multilateral Environmental Agreements and the World Trade Organization. Through its finance initiative, ETB helps enhance the role of the financial sector in moving towards sustainability.

In the field of environmental economics, ETB aims to promote the internalization of environmental costs and enhance the use of economic instruments to contribute to sustainable development and poverty reduction, including in the specific context of Multilateral Environmental Agreements. The UNEP Working Group on Economic Instruments, serves as an advisory body to UNEP-ETB's work programme on economics and has been instrumental in the preparation of UNEP publications on economic instruments.

For more information regarding UNEP's work on economic instruments, please contact *Anja von Moltke, Economics Affairs Officer, Economics and Trade Branch at +41 22 917 81 37 or e-mail anja.moltke@unep.ch.*

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