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Avinash Kumar

Avinash Kumar has completed his Ph.D. in International Investment Law from the Dept. of Law & Governance, Central University of South Bihar. His research work is on "International Investment Agreement and State's right to regulate Foreign Investment." He qualified UGC-NET and has been selected for the prestigious ICSSR Doctoral Fellowship.He is an alumnus of the Faculty of Law, University of Delhi. Formerly he has been elected as Students Union President of Law Centre-1, University of Delhi.Moreover, he completed his LL.M. from the University of Delhi (2014-16), dissertation on "Cross-border Merger & Acquisition"; LL.B. from the University of Delhi (2011-14), and B.A. (Hons.) from Maharaja Agrasen College, University of Delhi. He has also obtained P.G. Diploma in IPR from the Indian Society of International Law, New Delhi.He has qualified UGC – NET examination and has been awarded ICSSR – Doctoral Fellowship. He has published six-plus articles and presented 9 plus papers in national and international seminars/conferences. He participated in several workshops on research methodology and teaching and learning.

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ECONOMIC ANALYSIS OF ENVIRONMENTAL LAW; A SPECIAL REFERENCE TO LIABILITY RULES.

AUTHORED BY - PRAKHAR KUMAR SINGH

ABSTRACT

Environment conservation and protection have taken centre stage in today's world. With the development and increasing mechanization, the environment is at risk of derogation. Therefore,it becomes of utmost importance to review legislation and regulation of sectors that directly or indirectly harm the environment. This research article is primarily focused on the economics of environmental law, both domestic and international conventions. The issue of whether cost-based analysis of an action that produces ecological harm vs. the procedures of legal regulations of sanctions that hamper efficiency is dealt with the help of economic tools in this research paper. The effectiveness of these rules and regulations must be evaluated, highlighting their shortcomings. Environmental law is a special type of law since the necessity of a healthy and congenial ecosystem is of high priority. Various factors like geographical conditions and sustainable development goals are often put at stake. Nations try to circumvent the issue by setting unequal goals to achieve. The cost-benefit analysis and the liability rules of the current environmental law also make it hard to apply the current international conventions substantially. Given the development at stake, every nation tries to evaluate its benefits beforecomplying with pollution control laws. The Liability rules, such as the negligence rule and therule of strict liability, have also not reaped the right amount of results, which their inception intended to do, which strikes the necessity to review and reframe these laws.

Keywords: economic tools, cost benefit analysis, strict liability, liability rules, efficiency

INTRODUCTION

There are several regulatory strategies for addressing environmental liability, including strict liability, negligence-based liability, and insurance-based liability. This paper also explores the use of market-based instruments such as emissions trading and taxes.

In terms of effectiveness and feasibility, this paper notes that strict liability can be effective in deterring pollution but may also lead to under-deterrence in cases of insolvency. Negligence-based liability can be more flexible but may be less effective in deterring pollution. Insurance-

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based liability can provide a safety net for victims but may not be effective in deterring pollution. Market-based instruments can be effective in reducing pollution but may be more complex to implement and may face political opposition.

One of the key themes of environmental economics is the tension between liability and regulation in addressing environmental harm. This paper aims to convey that tort law can playa preventive role in deterring pollution but that it may not be sufficient on its own to address the full range of environmental harms. Regulation, on the other hand, can be more effective inaddressing systemic environmental problems but may be less flexible and more costly than liability-based approaches. A combination of liability and regulation may be most effective in addressing environmental harm and the choice of approach will depend on a variety of factors,including the nature of the harm, the characteristics of the polluter, and the political and economic context.

It is also important to explores the conditions for the insurability of environmental harm. It notes that insurers require ex-ante information on the predictability of the risk and on the magnitude of the damage in order to provide coverage. The paper suggests that the predictability of liability is an important factor in determining the insurability of environmental harm, but that the magnitude of the harm may also be a problem. Insurers may be reluctant to provide coverage for large-scale environmental disasters, such as oil spills or nuclear accidents,due to the potential for catastrophic losses.

consideration should also be paid to alternative compensation mechanisms for environmental harm, such as environmental damage insurance and compensation funds. Environmentaldamage insurance is a form of liability insurance that covers the costs of environmental harm caused by the insured party. Compensation funds, on the other hand, are typically financed bya levy on polluters and are used to compensate victims of environmental harm. It is importantto note that both of these mechanisms have advantages and disadvantages and that the choice of mechanism will depend on a variety of factors, including the nature of the harm, the characteristics of the polluter, and the political and economic context, which are not reflected effectively in domestic as well as international legislations.

It may also face challenges such as political opposition and the need to balance the interests of different stakeholders. This paper suggests that harmonization may be most effective in addressing cross-border environmental harm, where different legal frameworks can create uncertainty and lead to regulatory arbitrage. However, harmonization may not be necessary or desirable in all cases, and that a more flexible approach may be appropriate in some contexts.

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Finally, the paper considers arguments in favor of harmonization of environmental liability. Harmonization refers to the process of creating a uniform legal framework for environmental liability across different jurisdictions. The paper notes that harmonization can provide benefits such as increased legal certainty and reduced transaction costs,

LIABILITY RULES AND THEIR APPLICATION IN ENVIRONMENTAL LAW

Liability rules are an essential tool in environmental economics for addressing the problem of externalities, which occur when the actions of one party have an impact on others who are not involved in the transaction. In the context of environmental economics, externalities often arise when firms or individuals engage in activities that generate pollution or other forms of environmental damage. Liability rules are designed to ensure that those who cause environmental harm are held accountable for the costs of that harm and that they have an incentive to take steps to reduce their environmental impact.

Two main types of liability rules are used in environmental economics: strict liability and negligence liability. Under strict liability, a polluter is held responsible for any environmental harm that they cause, regardless of whether they were negligent or not. This means that if a firm causes pollution, they are liable for the total cost of cleaning up that pollution, as well as any damages that are incurred by those who are affected by the pollution. Strict liability is oftenused in cases where the risk of environmental harm is high and where it is difficult to prove negligence.

Negligence liability, on the other hand, requires that a polluter be found to have been negligentin order to be held liable for environmental harm. This means that if a firm can demonstrate that they took reasonable precautions to prevent pollution, they may not be held liable for any environmental harm that occurs. Negligence liability is often used in cases where the risk of environmental harm is lower and where it is easier to prove negligence.[1]

Liability rules can be designed in a number of different ways, depending on the specific circumstances of the case. For example, liability can be joint and several, which means that all parties who are responsible for environmental harm are jointly liable for the full cost of cleaning up that harm. Alternatively, liability can be proportional, which means that each party

[1] Siebert, Horst (1989) : Liability issues in pollution control, Kiel WorkingPaper, No. 350, Kiel Institute of World Economics (IfW), Kiel

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is liable for a share of the cost of cleaning up the environmental harm that is proportional to their contribution to that harm.

One of the critical advantages of liability rules is that they provide a clear incentive for firms to take steps to reduce their environmental impact. If a firm knows that it will be held liable forany environmental harm that they cause, they have a strong incentive to invest in pollution control technologies and other measures that can reduce their environmental impact. This can lead to a more efficient allocation of resources, as firms are encouraged to find the most cost- effective ways of reducing their environmental impact.[2]

However, liability rules also have some limitations. One of the main challenges is determining the appropriate level of liability for different types of environmental harm. This can be difficult,as the costs of environmental harm are often challenging to quantify and may vary depending on the specific circumstances of the case. In addition, liability rules can be expensive to administer, as they often require complex legal proceedings and expert testimony to determineliability and damages. This can make it difficult for smaller firms or individuals to defend themselves against liability claims and can also lead to delays and uncertainty in the legal process.

Another challenge with liability rules is that they may not always be effective in preventing environmental harm. In some cases, firms may be willing to accept the costs of liability as a cost of doing business. They may continue to engage in activities that generate pollution or other forms of environmental harm. In addition, liability rules may not be effective in cases where the harm is diffuse or widespread, such as in cases of climate change or air pollution.

Despite these challenges, liability rules remain an essential tool in environmental economics for addressing the problem of externalities. By holding polluters accountable for the costs of environmental harm, liability rules can help to ensure that firms have a strong incentive to reduce their environmental impact and can also provide compensation to those who are affectedby environmental harm. As such, liability rules are likely to continue to play an essential role in environmental policy and regulation in the years to come.

In addition to liability rules, there are a number of other policy tools that can be used to address environmental externalities. For example, taxes and subsidies can be used to internalize the costs of environmental harm by making polluting activities more expensive and

[2] Ibid at 1

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environmentally friendly activities more affordable. Tradable permits, such as carbon credits, can also be used to create a market for pollution reduction, allowing firms to trade permits and find the most cost-effective ways of reducing their environmental impact.

The use of liability rules in environmental economics is an essential topic with significant implications for environmental policy and regulation. While liability rules have some limitations, they remain an essential tool for addressing the problem of externalities and ensuring that firms are held accountable for the environmental harm that they cause. As such, policymakers and economists will continue to explore the use of liability rules and other policy tools to promote environmental sustainability and protect the natural world for future generations.

INSURANCE LAWS AND EPA, 1986[3]

Michael G. Faure[4] discusses the role of insurance in addressing environmental harm. liability insurance can play an essential role in providing compensation to victims of environmental harm, but the insurability of environmental harm is subject to certain conditions.

This suggests that insurers require ex-ante information on the predictability of the risk and on the magnitude of the damage in order to provide coverage. The predictability of liability is an important factor in determining the insurability of environmental harm, but the magnitude of the harm may also be a problem. Insurers may be reluctant to provide coverage for large-scale environmental disasters, such as oil spills or nuclear accidents, due to the potential for catastrophic losses.

It also notes that mandatory liability insurance for environmental harm may not be appropriatein all contexts. In concentrated insurance markets, mandatory insurance may reinforce inefficiencies in the insurance market. Additionally, liability insurance coverage for environmental harm is still a relatively young and inexperienced branch, which may limit its effectiveness in addressing environmental harm. In the article by Op Onkar[5], it is mentioned that the Public Liability Insurance Act of 1991 was introduced to make public liability insurance mandatory for installations handling hazardous substances. This was done to ensure that minimum relief was provided to the victims. However, the implementation of the act faced

[3] Environmental Protection Act, 1986.
[4] Cafaggi, F., Watt, H. Muir, eds., Cheltenham, Edward Elgar, *The Regulatory Function of European PrivateLaw*, pp. 129-187, 2009
[5] U. Sankar, 2016. "Laws and Institutions Relating to Environmental Protection in India," WorkingPapers id:11446, eSocialSciences.

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challenges as insurance companies were not ready to offer policies for unlimited liability of the owners. To address this issue, the Public Liability Insurance (Amendment) Act 1992 was passed. This act limited the liability of insurance companies to the amount of the insurance policy, but the owners' liability remained unlimited. Therefore, the main problem with the Public Liability Insurance Act of 1991 was the reluctance of insurance companies to provide policies for unlimited liability of the owners, which led to implementation challenges

Overall, this suggests that liability insurance can play a role in addressing environmental harm but that the insurability of environmental harm is subject to certain conditions. Policymakers and regulators should consider these conditions when designing insurance laws and regulationsfor environmental harm.

COST-BENEFIT ANALYSIS AND OTHER STRATEGIC CONSIDERATIONS

liability rules in connection to environmental law and strategically equates its efficiency in connection with the negligence concept[6]. The cost-justified and strategic nature of liability rules and negligence influences the adequate implementation of laws to a great extent.

Liability rules concerning negligence in the current modern world are mainly inefficient. strategic calculations in relation to the negligence rule have been given less focus in relation to environmental law. This literature is important for my study because of the strategic consideration exploration, which has not been explored much. Satish K. Jain, through mathematical tools and the frame of game theory, proves that.

In his essay[7], three distinct definitions of negligence have been used to explore the negligence rule from a strategic point of view. If negligence is defined as a deficit from the standard of care that is set in an individualized manner and at a level that minimizes social costs, as is typically done in the legal and economics literature, then at least three forms of strategic manipulation emerge:

(1) People are not allowed to perform actions that might make their caregiving more efficient but are not cost-justified.

(2) It is socially unproductive for people to spend resources in order to falsely depict their capacity to provide for others.

[6] Ghosh, Papiya, *Negligence Rule & Some Strategic Aspects, Indian Economic Review*, vol. 52, no. 1/2, 2017,pp.

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251–55

[7] *Ibid at 6*

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(3) People could spend money pretending to be able to predict many hazards for socially damaging purposes.

While individuals won't have an incentive to strategically manipulate, the group of persons asa whole will still have incentives to manipulate when required care is established at the same standard for all injured parties while still aiming to minimise societal costs of accidents. Of course, there are a number of variables that will determine whether or not a group of harm- doers band together, such as the likelihood that they will benefit from manipulation and the associated transaction costs. When the definition of negligence is the absence of a cost-justifiedprecaution, then in addition to the potential for manipulation, there is also the possibility that one party's carelessness may now depend on what the other party does.

Although just the negligence rule has been examined in this study, the strategic factors that have been presented are applicable to a wide range of liability rules. In fact, any liability rule that is effective in the same way as the negligence rule has strategic concerns that apply to it. It may be demonstrated that a liability rule is effective if its structure is such that one party is negligent. The other is not; the total accident loss is carried by the negligent party if due care levels are set from the standpoint of minimizing social costs. The fact that the basic principle of social cost reduction serves as the foundation for the notion of negligence under which thiscomprehensive characterization conclusion holds of which strategic considerations become operative.

WATER ACT[8] AND AIR ACT[9]

In air and water regulation, there are many common challenges related to economic issues that must be considered in its implementation.

A critical economic issue with both actions is the high cost of pollution abatement for businesses. Pollution control measures such as the installation of pollution control equipment and the implementation of clean manufacturing technologies can be expensive for businesses,especially small and medium enterprises (SMEs).) High pollution abatement costs can also affect industry competitiveness in the global market.[10]

[8] The Water (Prevention & Control of Pollution) Act, 1974

[9] The Air (Prevention and Control of Pollution) Act, 1981

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[10] U. Sankar, 2016. "Laws and Institutions Relating to Environmental Protection in India," WorkingPapers id:11446, eSocialSciences.

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Another economic issue inherent in both practices is the lack of adequate financing for pollution control. Implementation of the actions requires substantial financial resources for maintenance, enforcement, and research and development. However, funding for pollution prevention is limited, and existing resources are often inadequate for effective implementation of the Regulations.

Both laws also face challenges in terms of market-based instruments such as emissions trading, pollution taxes, water pricing, water trading, etc.[11] The lack of proper institutional and legal framework has the limits of market-based instruments to be used in India. The implementationof market-based instruments also requires considerable financial resources for monitoring and control, which can be challenging in the face of limited financial resources for pollution prevention.

RECOMMENDATION

The significance of environmental protection varies due to the diverse choices and subjective opinions of involved parties. This diversity creates challenges in establishing a legal framework that balances competing interests. In order to address this issue, a Law and Economics approach with economic efficiency criteria can be applied. By integrating economic perspectives and environmental ethics, two policy recommendations can be proposed to enhance the effectiveness of the moratorium on whale hunting.

Instead of relying solely on the current moratorium, which has proven ineffective in achievingits conservation goal, two modifications can be made. Firstly, a market-based mechanism should be introduced, allowing countries to trade their whale hunting quotas. This not only creates economic incentives for countries to reduce quotas but also generates revenue for thosealready cutting back. Secondly, a certification system should be implemented for countries to label their whale products as sustainable. This not only fosters a market for sustainable productsbut also generates revenue for countries actively reducing their quotas.[12]

Implementing these recommendations is expected to have a more significant impact on conserving whale populations than the current moratorium alone. However, compliance

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[11] U. Sankar, 2016. "Laws and Institutions Relating to Environmental Protection in India," WorkingPapers id:11446, eSocialSciences.

[12] Ananya Kulkarni, SCC online, *Role of Economics, Valuation and Environmental Ethics in GlobalConservation Regimes: A Case Study*, SCC online, (2015) 4 ELPR 26

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measures such as monitoring, reporting requirements, and penalties for non-compliance should also be in place to ensure checks and balances.

The issue of global environmental protection poses challenges and requires diverse perspectives in policy decision-making. By adopting a Law and Economics approach with economic efficiency criteria, policies can be crafted that integrate the economic and ethical aspects of environmental protection. These policies should include modifications to the currentmoratorium on whale hunting, along with rigorous compliance measures to ensure their effectiveness. Ethical considerations and cohesive approaches between various policy-makingperspectives should be emphasized throughout this process.

CONCLUSION

The debate between Pigouvian taxes[13] and Coase Private Bargaining[14] has taken a new form in today's world. The rationale behind government intervention in markets stems from market failures. Certain natural resources, including air and river water, have public goods features and hence are not subject to markets in the context of environmental protection. Therefore, even Coase would assign a role for the state in the assignment of property rights to the resourcesand in implementing steps to lower transaction costs in order to ease bargaining between privateparties where the social goal is economic efficiency. In addition, the Coasean method assumesthat there is a legal structure in place to handle situations in which negotiations between two or more parties fail to produce a win-win outcome.[15]

This issue has evolved in India as the incentivized regulation of environmental regulations to prevent market failures. The cost of environmental harm is so immense that its repercussions can lead to permanent loss. Therefore, all regulation should include economic tools such as strategic considerations and cost-benefit analysis. I think that streamlining all regulations and focusing on how the effects of these laws will play out can help in controlling the degradation of the environment. Coase, in his article "The Firm, the Market and the Law,"[16] says that "Without some knowledge of what would be achieved with alternative institutional arrangements, it is impossible to choose sensibly among them." Therefore, all doctrinal and

[13] The purpose of the Pigouvian tax is to have producers pay a tax equivalent to the external harm that theirproduction choices create so that the market can fully account for the costs of the taxed commodities.

[14] Coase private bargaining states that when property rights are well stated (and enforced!), the efficient solutionwill

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be achieved, and when there is no cost involved in the parties' negotiations to resolve the externality.

[15] U. Sankar, 2016. "Laws and Institutions Relating to Environmental Protection in India," WorkingPapers id:11446, eSocialSciences.

[16] Ronald H. Coase, The Firm, the Market and the Law (University of Chicago Press, 1988).

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theoretical solutions will not hold good in environmental matters. It is important to note that questions related to who will bear the social cost and how this law will be reacted among the masses should be asked before drafting an environment policy