

Comments to the paper “The Dissimilar Experience with Economic Instruments to Control Pollution among Latin American Countries: Can We Explain It” (Ref. EDE-09-141)

The objective of this paper is to analyze the determinant factors behind the choice of policy instruments for environmental policy in the context of Latin American countries. This is an important topic because, as the author argues well in the introduction, most of Latin American countries base their environmental policy on “prescriptive regulation, while only a few countries in the region have experienced with economic instruments. The author poses the question on what accounts for the observed difference. To address the question, he explores two possible explanations: differences in institutional capacity among Latin American countries, and political economy issues.

The author provides a review of the related literature considering some of the documented experiences in the region. The paper is a literature review in nature and addressed the broad question regarding the factors affecting the choice of instrument for environmental policy in the context of less developed countries.

The paper is organised in six sections. After the introduction, in the second section, a brief literature review on the advantages of economic instruments for environmental policy is presented. The third section offers a review of the experience of (some) Latin American countries with economic instrument as part of their environmental policy. The fourth section presents a literature review on the explanations provided to the lack of more experience with economic instruments in Latin American countries. The fifth section critically discusses the answers presented in the previous section in the context of the regional’s experience. Finally, in section sixth conclusions and discussion based on this work are submitted.

Overall impression

The author has addressed a relevant question regarding the reasons behind the apparent lack of use of economic instrument as part of the design of environmental policy in the context of Latin American countries. The paper is interesting, and policy relevant. However, I have three main concerns with this paper. First, I think that the paper should be better motivated. I would encourage the author to tell the readers why it is important to learn about the factors explaining differences in the use of economic instrument as part of the environmental policy in the context of less developed countries. Second, the author stresses the potential role of lack of institutional capacity and political economy issues. I wonder if there are other possible explanations of the differences observed. Third, I would also encourage the author to revise the concluding discussion section. In my opinion it is not properly organized. Moreover, the author ends the paper suggesting that it is the presence of economists “working at decisive places at the time of the instrument were proposed” which may explain the use of economic instrument as part of the environmental policy in three Latin American countries. I am not totally convinced by the argument, and I would encourage the author to discuss further this point.

Specific issues

1. Introductory section. I would encourage the author to provide a motivation for the paper, as well as a brief account of the main results obtained. What do we learn from this analysis?
2. By page 4, the author argues that under an economic incentive based environmental policy, firms may have greater incentives to violate than under an emissions standard. I do not understand why. The literature on environmental compliance stressed the relevance of benefit from non-compliance in this decision. While emissions standards are likely to generate different benefit (at the margin) from non-compliance, economic incentives that are able to generate uniform prices (i.e. competitive transferable emissions permit system or uniform emissions tax) will produce the same benefit from non-compliance among firms. More discussion/clarification is needed.
3. On page 5, by the end of the first (incomplete) paragraph, the author refers to a problem under asymmetric information. What does it mean in this context?
4. The case of Colombia's discharge fee for water effluents is presented in section 3. I would encourage the author to explicitly discuss what we learn from this experience.
5. Are the figures presented on page 9 in dollars or pesos? Please clarify this.
6. The cases presented in section 3 are interesting; however, it is hard to draw clear conclusions or to learn on design aspects from these programs. I would suggest the author to define some patterns of comparison and look through them in the case of the programs under consideration.
7. In section 5, the relevance of the "lack of institutional capacity" and the "political economy issues" as determinant of the variation in the use of economic incentives as part of environmental policy are discussed. I wonder if these are the two only possible explanations. Perhaps it will be a good idea if the author explains what the two proposed explanations under consideration mean. For example, in section 6 two additional explanations are considered; namely, the role of the degree of openness of a country to international trade (suggesting external pressure for environmental regulation), and the possible active role of international agencies, like IDB or others. Are these factors considered as "political economy issues"?
8. Page 18, the author states that "Part of the reason may be that ECP covered only sources in the metropolitan area of Santiago, a smaller and richer area than Colombia". I do not clearly understand this comparison. Is it appropriate?
9. On page 21, the author refers to "criteria pollutants". Please, explain what does it mean.
10. The concluding discussion section needs to be revised. I have two problems with this section. First, in my opinion it is not properly organized; for example, it starts with a question about what can be concluded from the analysis, which is followed by, apparently, two answers. Are these the conclusions? Second, the author ends the paper suggesting that it is the presence of economists "working at decisive places at the time

of the instrument were proposed” which may explain the use of economic instrument as part of the environmental policy in three Latin American countries. I am not totally convinced, and I would encourage the author to discuss further this point.

Formal matters and other minor issues

- a) Footnote 2, page 2, the word “abatement” is repeated by the end of the sentence.
- b) Last (incomplete) paragraph on page 5; avoid the excessive use of the word “criteria”.
- c) There are some minor problems with references. I would suggest the author to update some of the references. Moreover, there is at least one reference in the text that is not in the reference list: Uribe (2005).
- d) Page 18, the author apparently refers to Law 19.300.
- e) Avoid using two footnotes at the same time (footnote 12 and 13, on page 20).
- f) Make sure that the list of references follows an alphabetical order; this is not the case on page 35.