

# Cleaning Up Is Hard To Do

By Lynda L. Maillet

As is well-known in the West, one of the darker legacies of communism has been the vast environmental degradation throughout Eastern Europe and the former Soviet Union. Under communism, what environmental laws existed had little noticeable effect; fines imposed had little effect on polluters when the money was paid from one pocket to the same pocket — the state's. Pollution control equipment was frequently considered too expensive to install or to run, especially when managers and planners alike were more concerned with final production figures than with any pollution for which they personally were not responsible.

Laws have been passed on the national level in many of the East European countries and in the republics of the former Soviet Union stating clearly the need to reduce current pollutants and clean up old sites. However, the laws often leave the details of setting standards, monitoring, and fining polluters to lower levels of government which are frequently reluctant to implement any law which may cause harm to the local economy or discourage prospective

investors. This situation is unlikely to continue unchallenged, particularly if these nations want to become members of the European

Community, and East European countries will be under tremendous pressure to adopt the environmental standards of the EC.

In any case, the years of neglect have resulted in some of the most polluted sites on Earth. Citizens of these countries and of Western Europe are all very much concerned with the lingering effects of the degradation and would like to see a rapid clean up and the halting of production at the more dangerous plants. Western businesses will find both investment opportunities and significant investment drawbacks because of the environmental problems.

## *Environmental liability*

Many Western firms interested in investing in or buying newly privatized companies in Eastern Europe have found themselves faced with the question of future environmental liability. The existing firms are frequently located on sites that would be considered hazardous waste sites in the West. There are still no laws in these countries which define who is responsible for past environmental damage. Because of this, nearly all Western companies have insisted that an environmental assessment be done of the site before investment plans are finalized. Many Western companies have tried to put clauses in their investment agreements whereby they will not be responsible for existing damage. However, most East European governments have not been willing to go along with this.

Faced with the possibility of major clean up costs, Western investors have found East European governments more receptive to deals which provide for a reduction in the price of the local company equal to prospective clean up costs. Deals have been struck in Poland, Czechoslovakia, and Hungary which include clauses to this effect.

The Czechoslovak privatization law includes a provision forcing enterprises to evaluate environmental liabilities before presenting their privatization projects to the government. The government may also initiate a program in which a foreign investor could commission an environmental audit; the government would then pay for the clean up based on this audit provided that the clean up costs were not greater than the purchase price paid by the investor. In this case, it would be up to the foreign investor to commission the audit in the first place. Other draft legislation in Czechoslovakia proposes the creation of an American-style Superfund, financed by the government with costs later being recouped from the original polluters (although the polluters would be difficult to identify and even if found would probably be unable to pay).

## *Investment opportunities*

The lack of adequate or modern pollution control equipment and the plethora of pol-

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luted sites in need of clean up in Eastern Europe provide many opportunities for Western firms who offer such services. Because of worries over future liability, prospective Western investors want their operations to meet EC environmental standards and therefore must buy equipment from the West since most is not available inside East Europe. Producers of pollution control equipment, such as scrubbers and filters, should find opportunities throughout Eastern Europe. Replacing the outdated and dirty technology at many industrial plants with more efficient, clean production methods would also dramatically reduce harmful emissions.

Western firms are also increasingly being called upon to provide the environmental assessments that governments and companies require for both new and existing sites. These Western firms are more experienced and knowledgeable than their relatively new East European counterparts and are likely to play a fairly large role in at least the initial stages of privatization.

recent accident at Sosnovy Bor near St. Petersburg in March 1992. The two power plants have RBMK type reactors, of which there are 16 others in the region. There are 63 additional non-RBMK nuclear power stations in Eastern Europe which worry East and West Europeans alike. Nuclear power experts agree that the RBMK reactors, because of fundamental design flaws, cannot be salvaged and should be shut down; the rest can be improved by introducing safety standards and equipment. However, because the region obtains much of its energy from nuclear power (Czechoslovakia obtains 28% and Hungary 50%), huge economic costs would be involved in shutting down any of the power plants. Improved safety standards at the non-RBMK stations will require substantial resources. Shortages and energy price rises would be the immediate result of either of the alternatives, affecting both foreign and domestic investors.

In the former Soviet Union, enterprises and individuals alike are accustomed to a cheap

and regular supply of electricity, as are people in other countries of the region. Individual households cannot even measure their own energy consumption; thermostats are non-existent (the window is used instead) and energy supplies continue to be centrally controlled. Although it will be a shock to the citizens of the ex-USSR, the need for change in the system is evident in order to monitor domestic use of resources and to encourage people to conserve, even in the most basic sense. Westerners can assist in both of these endeavors: by introducing monitoring systems and by educating people in simple conservation techniques.

### Comparison of Some Major Air Pollutants, 1988

	Sulfur Dioxide			Nitrogen Oxides		
	<i>Emissions (thous.tons)</i>	<i>Emissions per person (kg)</i>	<i>Emissions per \$ GNP (grams)</i>	<i>Emissions (thous.tons)</i>	<i>Emissions per person (kg)</i>	<i>Emissions per \$GNP (grams)</i>
Eastern Germany	5,258	317	31	708	43	4
Czechoslovakia	2,800	179	24	950	61	8
Bulgaria	1,030	114	21	150	17	3
Poland	4,180	110	20	1,550	41	7
Romania	1,800*	78	19	390**	17	4
Hungary	1,218	115	17	259	24	4
Soviet Union†	18,584	65	10	4,510	16	2
Britain	3,664	64	5	2,480	43	3
United States‡	20,700	84	4	19,800	80	4
Sweden	214	25	1	390	46	2
France	1,226	22	1	1,615	29	2
Western Germany	1,300	21	1	2,860	47	3

\* Emissions in 1980

\*\* Emissions in 1985

† 1987 data from stationary sources only

‡ Sulfur dioxide includes other sulfur oxides

Source: Worldwatch Institute as cited in *New York Times*, 9 December 1990.

#### *Economic costs and energy shortages*

The tremendous pollution from coal-burning electric power plants and the abysmal safety record of Soviet-designed nuclear power plants have led many citizens throughout East and West Europe to demand the shut down of the offending plants. The nuclear power industry has come under the most attack since the Chernobyl' accident in 1986 and the more

Of less immediate concern than the nuclear power plants are the coal-burning power plants, particularly in Poland where all industry, including the lignite-burning power stations, emits nearly 35% as much sulfur dioxide as all the nations of the EC combined. Many other industries are also under pressure to shut down because of environmental concerns. The local populace is torn between wanting a "clean"

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environment and keeping their jobs at the offending plants which frequently employ thousands of people. There have been instances in the former Soviet Union in which a plant was shutdown several years ago because of pollution (and the protests of the local populace), only to be restarted after the attempted coup in August 1991 because effected officials of the newly independent republic desperately needed to jump start the economy.

Many Western investors are concerned about contaminated water posing a risk to industrial machinery (80% of river and lake water in Poland is considered too polluted to be used even for industrial purposes) never mind the huge potential health risks posed by polluted groundwater. Health problems caused by both water and air pollution will be a long-term problem in Eastern Europe and the former Soviet Union. The losses will be felt both socially and economically as health problems plague workers in the major industries. Westerners worry about future liability for these medical problems as well.

Western investors in all areas of the economy would be welcomed by the local populace if only to introduce efficient and less polluting technologies. The World Bank and the European Bank for Reconstruction and Development (EBRD) have both approved loans to help the individual countries of East Europe improve the efficiency of and reduce pollution from their industry. Both banks require environmental studies for prospective ventures in the region. Additional financing specifically for pollution control and waste management in Eastern Europe is available through the U.S. Agency for International Development, the U.S. Overseas Private Investment Corporation, the U.S. Trade and Development Program, and the EC's Poland and Hungary Assistance for the Restructuring of the Economy (PHARE) program. The countries themselves have little or no money with which to finance projects to help clean up their environment, but the whole world can gain from Western assistance to East Europe both in terms of finance and in terms of clean technologies. ◇

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