Assessing the externalities

*Formal* regulators

*Informal* regulators
Assessing the externalities

- Informal regulators are powerful
  - NGOs, civil society organizations, unions, etc.
  - Press
  - Importers in the US, Europe
  - Competitors
CSN steel mill, Brazil
Case study of externalities
The CSN case

- Biggest and oldest steel mill in Brazil
- Operating in city of Volta Redonda, near Rio, since 1946

Between 1946 and 1999, CSN generated several impacts:
  - Respiratory problems among local community
  - Employees contaminated by toxic gases
  - Polluted river
  - Waste dumped in inappropriate locations

These externalities cost little to CSN

The company, though, made a loss every year
The CSN case

- Period when externality gained a price: 1999 - 2000
- Cost: US$ 100 million clean-up required by govt.
  - Remediation of contaminated land
  - 95% reduction in air emissions and effluents
  - Surge in recycling
  - New sources of income from sales of recyclable waste
  - Great improvement in relations with community
  - Good reporting on environmental data: [www.csn.com.br](http://www.csn.com.br)
- **Great gains, after initial shock, and excellent cash flow**
  (CSN almost bought a European steel company in 2006)
Risks to a financial institution

Credit risk: default

Collateral: devalued assets

Reputational risk

Legal risk

Shareholder risk: shares may drop in value
It’s not just about risk. There are opportunities, too.
Opportunity!

PET bottles recycled into textiles
Supermarket for organic foods
Los Angeles, USA
Making use of undervalued assets

Dominica: The Eco-Tourism Island
by Colin A. Lees