Chapter 1
Investing in the Environment: A Tale of Three Investments

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INTRODUCTION

Having recently benefited from profits resulting from equity investments – as well as other business ventures, a financial magnate and business enterprise director decided to invest in several jurisdictions. It was the seventies and a huge range of options was presented before the magnate. Furthermore, prevailing environmental and global conditions made investment in certain areas very attractive and profitable at the time.

The first option involved investing in a beautiful island which was located around several other islands which were known for their touristic and natural beauty.

The second option involved another island which also had wonderful landscapes and areas of natural and touristic scenes – however, whose touristic potential had not been fully exploited owing to the availability of, as well as focus on other sources of resource generating income.

The third option involved another jurisdiction whose natural resources were of enviable magnitude – which however, lacked the technology to exploit such resources, and hence, was in need of foreign investment and expertise to maximize the potential of income that could be extracted from such resources. The jurisdiction, although also endowed with areas of natural beauty, had many other priorities and regarded its natural resources as requiring greater focal attention.

The fourth option involved a jurisdiction which was endowed with immense wealth – both in respect of natural resources, as well as touristic attractions. In contrast to the second and third options, no regional or national vulnerabilities to geo-political influences were evident.

The investor decided to commence with negotiations in respect of all options.

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The response received from the first option was not so favorable – given strict environmental laws which governed the eligibility criteria for foreign investment – as well as other stringent regulations which had to be observed in relation to air and water pollution. Further, the profits which were agreed upon, as compensation to the island for other ventures which were intended to benefit locals, were considered to be uneconomical for the magnate – and as a result, the island authorities decided it was not worth the risk of accepting the offer of investment – when weighed against the resulting losses from damage to the beaches and resulting alterations to the appearance of the island's beautiful landscapes.

The response from the second option was more favorable – however there was a proviso which stated that the investor would have to invest in other sectors as compensation resulting from competitive disadvantage to local competitors. Furthermore, the investor was able to benefit from less stringent environment standards than was the case with the first option.

The third option provided even greater negotiating powers and flexibility for the investor – who not only promised technological and human resource advancement to the jurisdiction, but also regional development in terms of aid for vital local and national infrastructure. As regards, environmental considerations, this was given little attention since technological advancement appeared to constitute greater priority and since social attitudes implied that little appreciation was given to areas of natural beauty or possibilities to develop and exploit such areas of possible natural wonders. Many areas of touristic attractions were located in vicinities which were in need of greater access to tourists – as these areas were not located in the cities. Even though plans were underway to finalize connecting airports, to such areas, the government did not seem particularly keen or interested in the enterprise' offer to collaborate on a "touristic venture". The enterprise was then discouraged from pursuing with negotiations, after having been warned that any funds aimed at developing such projects would be diverted into the wrong channels.

The jurisdiction relating to the fourth option welcomed the investor and the offers provided – on the premises that strict environmental regulations would be observed – whilst contributing to the welfare of the local community. The jurisdiction had greater negotiating power as it already had several options and a longstanding reputation in respect of its touristic and wildlife attraction. Further, it was technologically equipped to maximize the potential of natural resources – and was less susceptible to geopolitical influences and tensions.

The investor weighed all the options and decided to invest in the last three options. Having set the ball rolling, investment commenced and summary reports revealed the following results after one decade:

The second option had generated expected profits for the investor – however, for the jurisdiction which was being invested in, the same could not be said. Even though the jurisdiction, on the whole, benefited from the investment, there were spill-over effects resulting not only from competitive disadvantage to neighboring industries, but also resulting from geo political influences.

As regards the third option, this fared even worse than the second option – particularly in respect of matters relating to environmental considerations, regional and technological disappointments. This was attributed, considerably, to lack of commitment to environmental standards – not only on the part of the investor, but also with regards to the jurisdictional authorities who played little attention to corporate governance practices, rules, regulations or codes of conduct – both in terms of enforcement and compliance. As a result, rather than evidence of visible benefits of foreign direct investment, the jurisdiction appeared to be worse off – aggravated by geo political conflicts and other related influences. Further, it appeared that reported cases new forms of illnesses had plagued communities affected by contaminated water resulting from chemicals and industrial pollution.