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Environmental liabilities in insolvency – an area ripe for reform?

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Environmental liabilities in insolvency – an area ripe for reform?

I. Introduction

This paper probes the perception that the law enables companies to shed their environmental liabilities through entry into insolvency proceedings. United Kingdom (‘UK’) company and insolvency law explicitly acknowledge the relevance of wider interests to a company’s long-term growth and the effects of its failure. For example, s.172 Companies Act 2006 mandates a director, in promoting the company’s success, to have regard to matters including ‘the impact of the company’s operations on the community and the environment’.¹ The Report of the Review Committee on Insolvency Law and Practice² (‘Cork Report’) notes that the community has always been regarded as having ‘an important interest’ in insolvency proceedings.³ It accordingly includes, among the objectives of a good modern insolvency law, the need to recognise and safeguard the interests ‘of society or… groups in society [that] are vitally affected by insolvency and its outcome’.⁴

The practical difficulty of achieving a balance between these community/social interests and the success or survival of companies when it comes to promoting environmental interests is however illustrated by a range of judicial decisions. This includes the attempt by People and Planet, an organization campaigning for action on climate change and respect for human rights, to ensure that the UK government exercised its power as a majority shareholder of the Royal Bank of Scotland (‘RBS’), in a way which compelled RBS’ board of directors to

¹ s.172(1)(d).
² Cmnd 8558, (1982).
³ ibid, paragraph 1734.
⁴ ibid, paragraph 198(i).
pursue policies which promoted environmental and human rights considerations in accordance with the s.172(1)(d) Companies Act 2006 duty. This application for permission to bring judicial review proceedings failed on the basis that the imposition of the government’s own policies regarding combating climate change and promoting human rights would interfere with the RBS board of directors’ ability to manage the company for the benefit of its shareholders as a whole. In rejecting the interventionist policy proposed by People and Planet, the court upheld the ‘commercial approach’ that the government had adopted in respect of its investment in RBS (made as a result of the ‘major financial support’ extended to the bank in 2008).

Likewise, in the absence of any special status for environmental claims in insolvency law, academic interest has centred on cases involving the use of the disclaimer provision s.178 Insolvency Act 1986 (‘IA 1986’). This empowers a liquidator to disclaim onerous property (defined as ‘any unprofitable contract’ or property which is unsaleable or capable of giving rise to financial or other onerous obligations), thereby terminating the company’s rights, interests and obligations in respect of such property, and leaving anyone who has sustained loss or damage in consequence of the disclaimer to prove a claim as a creditor in the winding-up. Case law has highlighted the tension between the use of this power in liquidation to achieve the ‘orderly and expeditious winding up of a company’s affairs’, and the ‘considerable public interest in the maintenance of a healthy environment’ denoted by

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6 Ibid, [6]-[36]
7 Ibid, [1].
8 s.178(3) IA 1986.
9 s.178(6) IA 1986.
10 Cork Report, (n.2) paragraph 1182. See e.g. Re Celtic Extraction [2001] Ch. 475, [42].
the polluter pays principle.\textsuperscript{11} This latter objective is enforced for example through the existence of the statutory regime aimed at ensuring that ‘the disposal of controlled waste does not give rise to: (i) pollution of the environment; (ii) harm to human health and; (iii) serious detriment to the amenities of the locality…collectively known in the waste management industry as "the three evils".’\textsuperscript{12} This tension has been settled in favour of the former interest, meaning that the costs of compliance with a waste management licence could not take priority over the debts owed by a company, nor could the company’s assets be ‘set aside to pay for future compliance with the terms of the licence’.\textsuperscript{13} Thus, in the absence of clear words preventing s.178 from being applied to specific items of property or specific types of debtors, liquidators have been held to be entitled to disclaim waste management licences as onerous property.\textsuperscript{14}

It may be expected that the goal of environmental protection can be more easily achieved in circumstances where the emphasis is on rescuing, rather than liquidating, a financially distressed company to ensure its continued operation. Administration proceedings, for example, have the primary goal of ‘rescuing the company as a going concern’.\textsuperscript{15} The Cork Committee, which recommended the introduction of the administration procedure,\textsuperscript{16} was conscious of the potentially disastrous impact of the ‘chain reaction consequent upon any given failure’ on creditors, employees and the community,\textsuperscript{17} a policy embraced by the House of Lords in \textit{Powdrill v Watson}: ‘This "rescue culture" which seeks to preserve viable

\textsuperscript{11} Re Mineral Resources Ltd [1999] 1 All ER 746, 757.
\textsuperscript{12} Re Rhondda Waste Disposal Ltd [2001] Ch. 57, [43]-[44].
\textsuperscript{13} Ibid, [39].
\textsuperscript{14} Re Celtic Extraction, (n.10).
\textsuperscript{15} IA 1986, Schedule B1, 3(1).
\textsuperscript{16} (n.2), Chapter 9.
\textsuperscript{17} Ibid, paragraph 204.
businesses was and is fundamental to much of the [Insolvency] Act of 1986.\textsuperscript{18} However, in keeping with the notion that society is more concerned with the ‘preservation of the commercial enterprise’ rather than the rescue of the company per se,\textsuperscript{19} recent insolvencies demonstrate how administration proceedings can be used to sell the profitable parts of a business, in conjunction with liquidation proceedings aimed at the disclaimer of environmental liabilities. UK Coal Operations Ltd entered administration in July 2013, and swiftly carried out a ‘restructuring [of the majority of its business and assets] following sophisticated advice’\textsuperscript{20} before entering liquidation to enable the liquidators (who were the same individuals as the administrators) to disclaim onerous liabilities\textsuperscript{21} - in particular a damaged colliery, which would otherwise have cost more than £100,000 per week to maintain.\textsuperscript{22} Similarly, the liquidation of two major coal mining operators in 2013, Aardvark (TMC) Ltd (‘ATL’) and The Scottish Coal Company Ltd (‘SCC’), was structured in such a way that viable mining sites which were capable of being immediately transferred were sold to the purchaser Hargreaves Services plc (‘HSP’), while more problematic mining sites which were not capable of being transferred immediately were hived down to ATL/SCC subsidiaries – the shareholding in which would in due course be conveyed to HSP.\textsuperscript{23} The remaining sites which carried substantial restoration liabilities were disclaimed by the liquidators.\textsuperscript{24} While recourse to the disclaimer powers (which are only available in

\textsuperscript{18} [1995] 2 A.C. 394, 442.
\textsuperscript{20} Re UK Coal Operations Ltd [2013] EWHC 2581, [2].
\textsuperscript{21} Re UK Coal Operations Ltd ibid, [5].
\textsuperscript{22} Statement by PwC, Ocanti Opco Limited – in Liquidation (formerly UK Coal Operations Limited) available from http://www.pwc.co.uk/services/business-recovery/administrations/ukcoal.html (accessed 31 July 2016)
\textsuperscript{23} See news releases by HSP: Acquisition of Assets from Aardvark (TMC) Ltd (16 May, 2013) and Acquisition of Assets from The Scottish Coal Company Ltd (5 July, 2013) - available from http://www.hsplc.co.uk/investors/regulatory-news.aspx (accessed 31 July 2016); and Firmin v Aardvark (TMC) Ltd [2013] EWHC 1774, [2].
\textsuperscript{24} Ibid; Firmin v Aardvark (TMC) Ltd ibid, [5].
liquidation proceedings)\(^{25}\) was justified on the ground of avoiding prejudice to unsecured creditors,\(^{26}\) it is evident that the transactions as a whole were viewed as being widely beneficial. A significant number of jobs were preserved and on-going production was secured,\(^{27}\) and the number of properties requiring disclaimer was minimized.\(^{28}\)

This handful of examples indicates, at the very least, that the interplay between company/insolvency and environmental law is not quite clear-cut. In particular, the treatment of the mining sites in the recent UK Coal, Aardvark and Scottish Coal Company liquidations shows how insolvency proceedings are capable of being used in a rather strategic way, with a view to mitigating (rather than sidestepping) environmental liabilities.

It has been questioned, based on previous case law,\(^{29}\) whether it should fall to the judiciary to resolve the ‘complex policy issues’ arising in the clashes between environmental and insolvency law.\(^{30}\) In similar vein, it may be debated whether the distinct solutions arrived at

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\(^{25}\) s.178(1) and (2) IA 1986 – ‘This [section applies] to a company that is being wound up in England and Wales...

\(^{26}\) See e.g. Firmin v Aardvark (TMC) Ltd, ((n.23) [6]): ‘The reason why the joint liquidators wish to disclaim the onerous properties immediately is to prevent them from generating liabilities which will prejudice the company’s creditors’; Re Directions, Nimmo [2013] CSOH 124, [7]: ‘The notors wish to protect SCC’s unsecured creditors and the bank, as holder of the floating charge, from the dissipation of the proceeds of disposal of SCC’s assets which continued performance of the statutory obligations will entail’; Statement by PwC, Ocanti Opco Limited – in Liquidation (formerly UK Coal Operations Limited (n.22): ‘The costs of securing and holding the [damaged] mine ... would have been an expense and, as such, these costs would have been paid ahead of the dividend to creditors.’

\(^{27}\) PwC statement, ibid: ‘As part of the restructuring the Administrators were able to protect around 1,500 Company jobs ...Over 400 jobs will also be preserved as part of the wider restructuring, under a separate insolvency process’; news release by HSP (n.23): Acquisition of Assets from Aardvark (TMC) Ltd (16 May, 2013) – ‘Hargreaves has committed to offer employment to 237members of staff on completion of restructuring.

\(^{28}\) News release by HSP, ibid: ‘In comparison with an unstructured liquidation, we have saved or created over 230 jobs and been able to continue mining operations at two of the key sites. The number of properties that have had to be disclaimed by the liquidators have been significantly reduced.’

\(^{29}\) Re Celtic Extraction (n.10); Re Mineral Resources (n.11); Re Rhondda Waste Disposal (n.12); Environment Agency v Hillridge Ltd [2003] EWHC 3023; Re Wilmott Trading Ltd (in liquidation) (Nos 1 and 2) [1999] 2 B.C.L.C. 541.

in the UK Coal, Aardvark and Scottish Coal Company liquidations, led by debtors and purchasers of their businesses/assets with limited court involvement, form the most advantageous response.\(^{31}\) The central issue, of how best to manage conflicts between environmental and insolvency law, should be considered in light of recent lessons from the United States (‘US’), outlined below.

II. ‘Scary stories’ in the US

The research for this paper was motivated by an empirical study conducted in the US by Lawton and Oswald, published in 2008.\(^{32}\) Against the background of criticisms and calls for the reform of environmental, corporate and bankruptcy law triggered by high-profile cases, they sought to determine ‘whether firms are indeed inappropriately using bankruptcy as a way to escape environmental liabilities on any sort of pervasive, wide-scale basis’.\(^{33}\) They argued that radical revisions of these areas of law should be preceded (and justified with reference to) some investigation into the existence and nature of the problem, compared to the ‘scary stories’ which had so far dominated the discussion surrounding the subject.\(^{34}\) This is echoed in an analysis of the role of empirical data in formulating bankruptcy policy, which observes that policy responses premised on anecdotes risk being disproportionate: ‘A statute may deploy vast enforcement resources to prevent or punish behaviours that rarely

\(^{31}\) See for example Firmin v Aardvark (TMC) Ltd, (n.23) – the court granted the liquidators permission to exercise certain powers prior to the holding of a creditors’ meeting under the IA 1986; and Re UK Coal Operations Ltd (n.20) – the court grant the administrators permission, in the interests of commercial necessity to dispense with the requirements to send proposals to creditors regarding the purpose of the administration and convene creditors’ meetings to consider such proposals, in accordance with the IA 1986.


\(^{33}\) Ibid, 457.

\(^{34}\) Ibid ,454.
occur."\textsuperscript{35} It was therefore crucial to look beyond the unsubstantiated claims and anecdotal reports of the routine evasion of environmental liabilities through the initiation of bankruptcy proceedings.\textsuperscript{36}

Lawton and Oswald recognised the difficulties of collecting data regarding environmental liabilities which could arise at state or federal level, through statute or common law, and take the form of various obligations such as penalties, repayment of clean-up costs and remediation orders.\textsuperscript{37} Coupled with the absence of official data on bankruptcy cases involving environmental issues, this meant that it was necessary to conduct this exploratory study with ‘a narrow but manageable set of data’.\textsuperscript{38} They accordingly focused on Chapter 11\textsuperscript{39} bankruptcy reorganisation cases filed during the year 2004, with a view to ascertaining the following:

First, how many firms in the data set reported environmental violations, liabilities, or other obligations? Second, of these firms, in how many instances did the environmental issues play a role in the bankruptcy filing? Third, of the firms in which environmental matters caused, even in part, the bankruptcy filing, in how many cases did the debtor end up shifting the cost of the environmental cleanup to the taxpayer? Fourth, even if environmental obligations did not play a role in the decision to file for bankruptcy, did the debtor avoid paying for environmental remediation either by invoking the Bankruptcy Code’s abandonment power or the right
to discharge? Finally, is there any evidence that parent corporations effectively shift the cost of environmental cleanup to the taxpayers by creating subsidiaries with insufficient assets to pay for their environmental obligations?\textsuperscript{40}

The findings of the study challenged many widely-held beliefs regarding the scale of the problem and the pressing need for legal reform. One view, for example, was that companies routinely avoided environmental liabilities by declaring bankruptcy, effectively exploiting the ‘loophole’ whereby debt obligations are discharged through insolvency.\textsuperscript{41} The study in fact found that environmental liabilities or violations influenced the decision to enter into Chapter 11 bankruptcy proceedings in less than 1% of the cases studied.\textsuperscript{42} Similarly, there was little support for the notion that the bankruptcy process enables the burden of the costs of environmental remediation to be pushed onto taxpayers through State intervention to clean up sites: overall, the bankruptcy process did not enable such debtors to transfer the burden of environmental remediation costs to taxpayers through State intervention.\textsuperscript{43} In fact, the discharge of environmental debts occurred in less than 2% of the cases examined, indicating that ‘the shedding of environmental liabilities through the bankruptcy discharge simply is not a common problem’.\textsuperscript{44} However, on the rare occasions where debtors successfully discharged their environmental obligations, the debts were substantial\textsuperscript{45} (though it was questionable whether this could justify comprehensive legal

\textsuperscript{40} Lawton and Oswald, (n.32) 458.
\textsuperscript{42} Lawton and Oswald, ibid 494.
\textsuperscript{43} Ibid, 510.
\textsuperscript{44} Ibid, 522.
\textsuperscript{45} Ibid, 522-525.
Thirdly, the abandonment of contaminated property in Chapter 11 proceedings in accordance with §554 of the US Bankruptcy Code, a procedure broadly similar to the power of disclaimer under UK Insolvency Act s.178 (outlined in Part I above), and seen in the US as ‘a loophole through which debtors pass in order to avoid their cleanup obligations under state and federal environmental laws’, was found to be ‘an extremely rare event’. It had been successfully invoked ‘[i]n only one case – less than one tenth of one percent of the total number of cases’. Finally, in terms of corporate structure and organisation, the perception that companies endeavoured to structure their operations in such a way as to ensure that the risks or burden of environmental liabilities were borne by subsidiaries with insufficient assets to fulfil their obligations, thereby shielding the parent company’s assets, was examined. Of the small minority of firms in the data set where environmental liabilities or violations had influenced the decision to file for bankruptcy, none was a subsidiary. Thus, the data did not substantiate the impression ‘that the world of Chapter 11 [bankruptcy] is disproportionately populated by shell subsidiary corporations with significant environmental liabilities’.

Lawton and Oswald accordingly concluded that in the absence of ‘any empirical evidence demonstrating more widespread abuse, proposals for the reform of bankruptcy, environmental or corporate law are based on nothing more than scary stories’. Their study

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46 Ibid, 525.
47 §554 (a): ‘After notice and a hearing, the trustee may abandon any property of the estate that is burdensome to the estate or that is of inconsequential value and benefit to the estate’, broadly similar to disclaimer power in IA 1986, s.178.
48 474; Bergmann, (n.41) 12
49 Lawton and Oswald, (n.32) 514.
50 Ibid, 458.
51 Ibid, 454 and 456. See Bergmann (n.41), 20: this can deter parent companies ‘from practicing responsible environmental management or from supervising subsidiaries to ensure sound environmental practices’.
52 Lawton and Oswald ibid, 494.
53 Ibid, 526.
54 Ibid, 527.
cast doubts on the view of bankruptcy (‘insolvency’ in the UK) as ‘the last loophole for polluters’,\textsuperscript{55} which facilitates the discharge of a company’s obligations through its restructuring, winding-up or dissolution,\textsuperscript{56} bringing about the externalization of the costs of environmental obligations which should borne by polluters.\textsuperscript{57} This outcome is of interest from a UK perspective, given the similarities in context.

III. The insolvency ‘shelter’ from environmental obligations in the UK

Lawton and Oswald’s observation that there were no data disclosing the real extent of the use of bankruptcy proceedings to escape environmental liabilities, ‘only unsupported assertions and anecdotal “evidence”’\textsuperscript{58} is reflected in the UK where, beyond a few reported cases,\textsuperscript{59} there is no statistical evidence of the extent to which insolvency mechanisms do in fact facilitate the discharge of environmental claims.\textsuperscript{60} Nor is there any official data regarding the number of insolvency cases involving environmental claims; this information would have to be extracted from the individual public records of corporate insolvency.

\textsuperscript{55} Bergmann (n.41), 2; D. Baker, ‘Bankruptcy – the Last Environmental Loophole?’ (1993) 34 S.Tex.L.Rev.379.
\textsuperscript{57} See e.g. J. Boyd, ‘Compensation for Oil Pollution Damages: The American Oil Pollution Act as an Example for Global Solutions?’; ‘Bankruptcy and corporate dissolution defeat the law’s ability to force polluter cost internalization by allowing many firms to abandon environmental responsibilities after reaping short-term financial gains. Nonrecoverable environmental obligations are more than a theoretical possibility. The U.S. landscape is littered with environmentally damaging operations that were either abandoned entirely or left unclaimed due to bankruptcy’; M. Faure and J. Hu (eds) Prevention and Compensation of Marine Pollution Damage: Recent Developments in Europe, China and the US (Kluwer, 2008), 157.
\textsuperscript{58} (n.32), 456.
\textsuperscript{59} In addition to those cited in n.29, see County Durham Environmental Trust Ltd v Twizell [2009] EWHC 2173.
\textsuperscript{60} See however Shelbourn’s comments linking increased ‘burden of environmental protection’ with growth in the number of companies in financial difficulties, and referring to the departure of a number of landfill operators from the sector (some via the insolvency route) as a result of increased regulation: C. Shelbourn, ‘Waste Management and the Insolvent Company’ 2000 J.P.L 134, 138; and C. Shelbourn, ‘Waste Management Sites, Insolvency and Long Term Financial Provisions - the Story Continues...’ 2004 J.P.L. 697, 706.
cases. 61 While the Insolvency Service is currently releasing company liquidation statistics broken down by industrial sector, 62 environmental claims can arise in a variety of areas, such as mining and quarrying, manufacturing, transportation, energy or water supply. The absence of numerical data which provides a breakdown of the different types of creditors involved in a particular insolvency proceeding is an additional constraint. 63

Similarly, the conflict which Lawton and Oswald identified between environmental legislation which aims to impose responsibility for remedying contamination in accordance with the polluter pays principle, and the ‘fresh start’ provided for debtors by the bankruptcy regime, releasing them from their debts and ensuring equitable distribution of their assets among their creditors, 64 is evident in some UK cases. As mentioned in Part I above, this includes cases where the courts have been called upon to resolve the question ‘whether a Waste Management Licence granted pursuant to the provisions of [Part] 11 of the Environmental Protection Act 1990 ... and held by a company can be disclaimed by a liquidator of that company pursuant to s.178 of the Insolvency Act 1986’. 65 In Re Celtic Extraction Ltd, 66 the established authority on this point, the Court of Appeal concluded that a liquidator could disclaim a waste management licence on the basis that it was onerous property, finding that it could not be inferred from the legislation that the application of the ‘polluter pays’ principle extended to cases where the polluter could not pay, thus shifting the costs onto its unsecured creditors. 67 This decision was considered to have provided ‘a potentially useful mechanism by which insolvency practitioners may avoid environmental

63 Tarling, (n.61).
64 Lawton and Oswald, (n.32) 460.
66 Re Celtic Extraction (n.10).
67 Re Celtic Extraction ibid, [39].
liabilities facing companies in liquidation’. Furthermore, the observation that the outcome of this case would create perverse incentives for creditors to push for their debtors’ liquidation ‘in order to reduce the quantum of clean-up costs which they would have to bear in administration or similar proceedings’ and thereby protect the debts they would recover from being further diminished is borne out in the recent Scottish Coal and UK Coal insolvencies. As sketched in Part I above, in these instances liquidation proceedings were embarked on for the purpose of enabling the disclaimer power (which applies only to companies which are being wound up) to be used to minimise the insolvent estate’s exposure to clean-up costs – a motivation acknowledged in the litigation concerning the abandonment of statutory licences and land held by the Scottish Coal Company Ltd.

The disclaimer facility also enabled the liquidators of UK Coal Ltd to dispense with a fire-damaged colliery on the basis that this ‘was a high risk site with substantial liabilities attaching to it. The costs of securing and holding the mine ... would have been an expense and, as such ... would have been paid ahead of the dividend to creditors’. Similarly to the case of Scottish Coal, this entry into liquidation for the purpose of disclaiming sites and/or statutory licences proved necessary notwithstanding the fact that it had been possible to sell or restructure the bulk of the debtors’ business or assets. Thus, although the case law

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69 (n.30), 204 (original emphasis).
70 See (n.25).
71 Re Directions, Nimmo [n.26], [6]-[7] – ‘SCC’s directors applied for the company to be wound up rather than appoint an administrator because it was insolvent and did not wish the cost of performing its environmental obligations to use up the funds realised from the sale of its assets. . . . . The [liquidators] wish to protect SCC’s unsecured creditors and the bank, as holder of the floating charge, from the dissipation of the proceeds of disposal of SCC’s assets which continued performance of the statutory obligations will entail.’ appeal judgment Re Scottish Environment Protection Agency [2013] CSIH 108.
73 PWC statement http://www.pwc.co.uk/business-recovery/administrations/ukcoal/index.jhtml; news release by purchaser Hargreaves Services plc ‘Acquisition of Assets from The Scottish Coal Company Limited’ in
regarding the conflict between environmental law and insolvency law has grappled with the question of whether the Environmental Protection Act 1990 should prevail over the Insolvency Act 1986,\(^7\) as outlined in Part I above with reference to the recent liquidations of UK Coal Ltd, Aardvark (TMC) Ltd and Scottish Coal, it has to some extent proved possible in practice for the parties to a corporate insolvency (i.e. the administrators/liquidators, debtor organizations, and purchasers of the business/assets) to mediate these competing interests.

Against the backdrop of prominent cases such as *Re Celtic Extraction Ltd*, it is unsurprising that calls for the UK legislature to address the conflict between environmental and insolvency law have been based on significant judicial decisions, rather than widespread perceptions of the abuse or strategic use of insolvency proceedings. Specific concerns relate to the resolution of the conflict between these areas of law by the judiciary rather than through legislation,\(^7\) particularly where this creates uncertainty regarding the status of environmental claims.\(^7\) The questions whether an environmental regulator is entitled to prove its claim in liquidation as an unsecured creditor following successful disclaimer of a statutory licence,\(^7\) or environmental liabilities enjoy some priority status as liquidation expenses,\(^7\) have not been conclusively settled. Prompted by the most recent judgment (in the Scottish Coal Company liquidation) regarding the question whether the fulfilment of

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\(^7\) See e.g. *Re Wilmott Trading Ltd* (n.29), 553, referring to the conclusion in *Re Mineral Resources* (n.11) 'that where the insolvency legislation appeared to collide with the environmental protection legislation ... the environmental protection legislation should prevail'; and the rejection in *Re Celtic Extraction* (n.10), [46]) of the notion that s.35(11) Environmental Protection Act and s.178 Insolvency Act 1986 ‘are mutually inconsistent and irreconcilable’.

\(^7\) Shelbourn ‘Waste Management Sites, Insolvency and Long Term Financial Provisions …’ (n.60), 707; Keay and de Prez, (n.30), 101-111.

\(^7\) Armour, (n.30) 203-204.

\(^7\) D. Case and P. de Prez, ‘The Power of Disclaimer and Environmental Licences’ 2000 Insolv.L. 87, 90; *Re Scottish Environment Protection Agency* (n.71), [146]; *Re Mineral Resources Ltd* (n.11), 758-760.

environmental liabilities should prevail over repayment to creditors, the UK Insolvency Lawyers Association urged that any compelling ‘policy arguments for making creditors meet environmental liabilities before the state steps in ... should be [adopted as] a matter of conscious insolvency policy, following debate and bearing in mind the potentially significant and unpredictable nature of such environmental liabilities’.  

Adding to this cautionary note, this paper argues that any shift in insolvency policy towards allowing environmental liabilities to be satisfied before repayment to creditors, should furthermore be informed by an analysis of the means by which environmental law and policy mechanisms enable the scale of such liabilities to be minimised, and thus affect the need for reform. It begins by highlighting and evaluating some relevant factors below.

IV. Factors limiting the incidence of environmental claims in the UK

Baird contends that where environmental regulations are seen to have a limited effect in the context of insolvency, firms may be encouraged to initiate proceedings to avoid their obligations. Conversely, as argued in this paper, the effectiveness of the policies and regulations which apply outside insolvency can reduce the motivation or likelihood for companies to resort to proceedings as a means of escaping their environmental obligations. It is therefore worth examining how far insolvency risks are directly considered and/or mitigated through tools such as (a) the operation of the contaminated land regime, (b) criminal sentencing practice, and (c) the growing emphasis on the environment as a tool for economic growth. These are considered in turn below.

79 'Scottish Coal Company - Disclaimer, environmental liabilities and liquidation expenses' Bulletin No. 533 (2014).
IV(a) Role of the contaminated land regime

The regime for dealing with historical problems of contaminated land occupies an important place among the different types of financial obligations related to the environment which can arise. The costs of remediating contaminated land can be substantial – running into millions of pounds, and therefore potentially overwhelming for a debtor. The original polluter of the land may be incapable of fulfilling its responsibility to bear these costs - a problem which can be especially acute with respect to polluting businesses which have ceased trading. From the perspective of an enforcement authority, it becomes necessary to attach responsibility to another ‘appropriate person’ such as an owner or occupier of the contaminated land. However, the complexity of the process of identifying and imposing liability on appropriate persons can involve local authorities in expensive legal wrangles, and this can prove a deterrent to enforcement activities aimed at ensuring that contaminated sites are cleaned up. More generally, inherent flaws in the statutory regime for the remediation of contaminated land (laid down in Part 2A Environmental Protection Act 1990) may be seen to have rendered it unworkable, to the extent of hampering its

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81 The regime is aimed at dealing with land ‘that poses a significant risk to health or the environment, where there is no alternative solution’ – Department for Environment, Food and Rural Affairs, Environmental Protection Act 1990: Part 2A Contaminated Land Statutory Guidance (Crown, 2012), 2. Recent examples of extensive liability include a polluted limestone quarry in Wales – ‘NRW finally recoups costs for toxic quarry’ ENDS (25 August 2015), and a 20 kilometre plume of contaminated groundwater in Hertfordshire – ‘Redland and Crest to start site clean-up’ ENDS (26 March 2010).

82 In accordance with its obligations under the Environmental Protection Act 1990 (‘EPA 1990’), s.78F(2)-(3).

83 S. Evans, ‘Contaminated land: how to fix Part 2A’ 2014 ENDS 467, 38. See e.g. Environment Agency v Hillridge (n.29), where the trust fund set aside under the conditions of a waste management licence became vested in the Crown as bona vacantia once the licence was disclaimed in the company’s liquidation – thwarting the Environment Agency’s recourse to the fund for the purpose of cleaning up the contaminated land.

84 In accordance with the EPA 1990, s.78F(4)-5).


86 S. Evans, ‘Insurance recovery: a blank cheque for contaminated land?’ ENDS (24 September 2013). In examples cited in n.81 above, the companies which were pursued by the regulators denied responsibility.
ability to facilitate the voluntary remediation of contaminated land. Notwithstanding these difficulties, two particular aspects of the regime’s operation play a considerable part in controlling the risk of insolvency arising from remediation obligations. For the purposes of this paper, it is therefore instructive to consider how the planning system enables the costs of cleaning up contaminated sites to be privately absorbed by developers, and the manner in which the hardship criteria embodied in the Part 2A statutory regime provide a means of anticipating and negating the possibility of claims for remedial costs being reflected among the debts payable in an insolvency.

Recent reviews of the progress made in dealing with contaminated land in England and Wales have identified the planning system as foremost among the methods of remediating existing contamination. The use of the planning regime to deal with contaminated land by facilitating the development of such sites was estimated at 80-90% of contaminated sites in England and Wales between 2000 and 2007 (and 93% in Wales by the end of 2013). The Environment Agency regards this as ‘a very cost-effective way to manage land contamination as those who will benefit from the development usually pay to remediate it’, compared with the taxpayer-funded cost of a regulatory intervention.

This use of the planning system is complemented by the Part 2A statutory regime for dealing with contaminated land, which is targeted at contamination posing unacceptable

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87 V. Fogleman, ‘The contaminated land regime: time for a regime that is fit for purpose (Part 2)’ (2014) 6(2) I.J.L.B.E. 129, 135.
88 Dealing with Contaminated Land in England and Wales (Environment Agency, 2009), 5; The State of Contaminated Land in Wales (Natural Resources Wales, 2016), 10.
89 Dealing with Contaminated Land ibid, 6; The State of Contaminated Land, ibid.
90 Dealing with Contaminated Land ibid,5. See The State of Contaminated Land, (n.88): ‘...development of land through the planning process means that the cost of dealing with contaminated land is born (sic) by those likely to benefit from the redevelopment. Taking regulatory action is usually a last resort and can mean that the taxpayer has to bear some of the cost.’
risks to human health and the environment’.  

The policy objective underlying Part 2A of ensuring that ‘the burdens faced by individuals, companies and society as a whole are proportionate’ is supported by the enforcement authorities’ power, in situations where they have engaged in remediation activities and are entitled to recover the reasonable costs thereof from the appropriate person(s), to have regard to ‘any hardship which the recovery may cause to the person from whom the cost is recoverable’, in deciding whether to seek recovery of some or all of the costs. With respect to small or medium-sized enterprises, relevant considerations include whether recovery of the full cost involved ‘would mean that the enterprise is likely to become insolvent and thus cease to exist; and ... if so, the cost to the local economy of such a closure’. If the cost to the local economy of an enterprise’s closure appears to outweigh the remediation costs borne by the enforcing authority, ‘the authority should consider waiving or reducing its costs recovery to the extent needed to avoid making the enterprise insolvent’. Local authorities’ decisions regarding cost recovery may also be informed by relevant policies on promoting enterprise or encouraging economic development.

It would therefore seem unlikely that remediation costs would play a significant role in bringing about the insolvency of a company, or in fact have a strong presence among the environmental claims. This is reinforced by the indication in the Department for Environment, Food and Rural Affairs’ (‘Defra’) cost recovery guidance that it is unnecessary to waive or reduce costs where ‘it appears that the enterprise would be likely to become insolvent whether or not recovery of the full cost takes place; or ... that the enterprise could 

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91 Part 2A Contaminated Land Statutory Guidance (n.81), 1.4-1.5.
92 Ibid, 1.4.
93 EPA 1990, s.78(P)(2); ‘enforcing authority’ defined s.78A(9).
95 Ibid, 8.15.
96 Ibid, 8.18.
be kept in, or returned to, business even if it does become insolvent under its current
ownership.’ Despite the long-standing concern that businesses are able to ‘escape
environmental and other liabilities through careful corporate structuring’, enforcing
authorities are precluded from waiving or reducing costs where they are ‘satisfied that an
enterprise has deliberately arranged matters so as to avoid responsibility for the costs of
remediation’. Thus, a closer study of the handling of contaminated land in the UK shows that the ‘polluter
pays’ principle is not strictly enforced, insofar as the costs of remediation may be
shouldered by private sector developers or absorbed by the State through a costs waiver or
reduction by an enforcing authority. This is borne out by recent evidence indicating that
local authorities make limited efforts to recover remediation costs from current owners or
occupiers of land, especially homeowners (rather than the parties directly responsible for
the presence of the contaminating substance). Lees notes that this reticence is apparently
premised on the assumption that it follows from the notion of fairness underlying the
‘polluter pays’ principle that it would be ‘unfair to make an individual pay to clean up harm
which was not caused by his or her actions’. The operation of the Part 2A regime
furthermore reveals the extent to which at enforcement level, hardship criteria can be
applied to avert insolvency in what may be considered ‘genuine’ cases: that is, instances
where an enterprise would not face insolvency if it were not for its liability for remediation
costs, or it is prevented by such liability from returning to a state of solvency.

97 Ibid, 8.16.
98 Lawton & Oswald, (n.32) 460-461
99 Part 2A Contaminated Land Statutory Guidance (n.81), 8.16.
100 E. Lees, ‘Interpreting the contaminated land regime: should the ‘polluter’ pay?’ 2012 Env. L. Rev. 98, 102.
101 Ibid, 103.
IV(b) Role of criminal sentencing policy and practice

The impact of criminal sentencing policy and practice is likewise strongly relevant in considering the extent to which fines for environmental offences may cause or contribute to a company’s failure, or encourage recourse to insolvency proceedings. Although environmental enforcement techniques have been expanded through the introduction of the civil sanctions framework\textsuperscript{102} aimed at providing ‘a more proportionate and flexible response to cases of regulatory non-compliance normally dealt with in the criminal courts’,\textsuperscript{103} the criminal law continues to play a vital role in relation to serious breaches of environmental law.\textsuperscript{104} Hence, this analysis focuses on the effectiveness of criminal sentencing policy and practice in reducing the potential for sanctions arising from a company’s breach of its environmental obligations to contribute/lead to its insolvency.

The strength of this element should be regarded against the backdrop of a recent review of sentencing for environmental offences in the UK. The review highlighted concerns that fines were not sufficiently high, did not reflect the severity of offences or have an adequate deterrent effect, and that there were inconsistencies in fines involving similar offences committed by similar offenders across the country.\textsuperscript{105} Research identified magistrates’ limited experience of sentencing environmental offences due to the infrequency with which these came to court, and their ‘lack of confidence’ in evaluating the seriousness of offences

\textsuperscript{102} Introduced by the Regulatory Enforcement and Sanctions Act 2008 (‘RES Act’).
\textsuperscript{103} Department for Business Enterprise and Regulatory Reform, Regulatory Enforcement and Sanctions Act 2008: Guidance to the Act (Crown, 2008), 7; RES Act, Explanatory Notes paragraphs 3-9.
\textsuperscript{104} R. Macrory, ‘Sentencing guidance for large companies’ 2014 ENDS 469, 29.
\textsuperscript{105} Sentencing Council, Environmental Offences Guideline Consultation (Crown, 2013), 5.
and appropriate levels of fines, especially with respect to corporate offenders.\textsuperscript{106} Levels of fines ‘in some relatively severe cases involving corporations were too low’.\textsuperscript{107} Sentencing guidelines for environmental offences,\textsuperscript{108} released following the review, govern ‘high volume offences’\textsuperscript{109} under key environmental legislation.\textsuperscript{110} The guidelines emphasise that compensation orders should be considered as a first step for injury, loss or damage, and prioritised over financial penalties where an offender is of limited means.\textsuperscript{111} This specific prompt\textsuperscript{112} may assist in overcoming past judicial unease regarding the role of the criminal courts in dealing with ‘complex compensation issues’,\textsuperscript{113} and lead to a predominance of compensation orders over fines in relation to financially distressed companies. In determining the appropriate level of fine to impose according to the seriousness of the offence, aggravating factors include evidence of its wider impact (e.g. on the community) or its commission for financial gain.\textsuperscript{114} Conversely, mitigating factors include steps taken to remedy the problem, voluntary payments made to remedy the harm caused, and the absence of commercial motivation or lack of financial gain.\textsuperscript{115} The guidelines furthermore dictate a series of steps whereby the court determines that its sanction ‘removes any economic benefit derived from the offending’ and is proportionate to the offender’s means, notably taking account of the principle that

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\textsuperscript{106} Ibid.
\textsuperscript{110} \textit{Environmental Offences: Definitive Guideline} (n.108), 3 and 14.
\textsuperscript{111} \textit{Definitive Guideline} ibid, 4.
\textsuperscript{113} \textit{R v Thames Water Utilities Ltd} [2010] EWCA Crim 202, [39].
\textsuperscript{114} \textit{Definitive Guideline} (n.108), 11.
\textsuperscript{115} Ibid. As with aggravating factors, this list is non-exhaustive. In the first case applying these guidelines, \textit{R v Thames Water Utilities Ltd} [2015] EWCA Crim 960: ‘In environmental pollution cases [relevant mitigating features] will include prompt and effective measures to rectify the harm caused by the offence and to prevent its recurrence, frankness and co-operation with the authorities, the prompt payment of full compensation to those harmed by the offence, and a prompt plea of guilty. In addition, significant expense voluntarily incurred – so-called “reparation” – in recognition of the public harm done should be taken into account…’ (at [41]).
The combination of financial orders must be sufficiently substantial to have a real economic impact which will bring home to both management and shareholders the need to improve regulatory compliance. Whether the fine will have the effect of putting the offender out of business will be relevant; in some bad cases this may be an acceptable consequence.\(^{116}\)

Further ‘factual elements’ relevant to increasing or reducing the proposed fine include the extent to which a fine impairs the offender’s ability to compensate victims or make the organisational changes necessary to improve compliance, and the impact of the fine on employees, customers/service users and the local economy.\(^{117}\) In considering an offender’s ability to pay a financial penalty, the court has ‘the power to allow time for payment or to order that the amount be paid in instalments’.\(^{118}\) The existence of corporate group relationships, viewed in academic literature as a means of curbing liability through the use of subsidiaries which are undercapitalised or subject to intra-group transfers of value,\(^{119}\) is relevant to the adjustment of fines insofar as a court considering an offender’s financial circumstances may be influenced by any demonstration ‘that the resources of a linked organisation are available and can properly be taken into account’.\(^{120}\)

\(^{116}\) Definitive Guideline (n.108), 12 (emphasis added).
\(^{117}\) Ibid, 13.
\(^{118}\) Ibid, 12.
\(^{120}\) Definitive Guideline (n.108), 6.
The courts’ overall discretion to mould the sentence to individual circumstances\textsuperscript{121} suggests that the need for an insolvency shelter for companies subject to criminal sanctions is minimal. At the same time, the inadequate sentencing of corporate offenders prior to the introduction of the guidelines (among the reasons for reform in this area, as identified above), diminishes the possibility that an insolvency ‘loophole’ was relied on in the past as a means of evading criminal penalties. Historically in fact, an offender’s substantial voluntary reparation for harm could negate the need for a compensation order, and provide a strong mitigating factor in support of a reduction in the deterrent (and possibly punitive) element of a fine. In \textit{R v Thames Water Utilities Ltd}, decided in 2010,\textsuperscript{122} the offender’s ‘unprecedented [voluntary] payment and pledge of the total sum of £500,000 – a sum vastly in excess of any which the court could have ordered by way of compensation’ was among the mitigating features weighed against the seriousness of the offence.\textsuperscript{123} The Court of Appeal noted that a misleading impression may be created in such circumstances where ‘on the face of the court record, a relatively modest sentence may have been imposed for what was, in fact, an offence which would normally attract a higher (or possibly much higher) sentence’.\textsuperscript{124} Thus, seemingly low fines might not adequately reflect the extent to which an offender has internalised the costs of its harmful activities, sometimes well beyond the amount of any potential compensation order.\textsuperscript{125} The implementation of the new sentencing guidelines may have the same impact: in the first decision involving their application, incidentally also \textit{R v Thames Water Utilities Ltd}, the Court of Appeal considered that ‘[c]lear and accepted evidence from the Chief Executive or Chairman of the main board that the

\textsuperscript{121} \textit{Environmental Offences: Response to Consultation} (n.112), 8.


\textsuperscript{123} Ibid, [50].

\textsuperscript{124} Ibid.

\textsuperscript{125} Ibid, [49].
main board was taking effective steps to secure substantial overall improvement in the company’s fulfilment of its environmental duties would be a significant mitigating factor.\textsuperscript{126}

While an escalation in the levels of fines imposed in cases involving offences committed by companies is predicted following the release of the new sentencing guidelines,\textsuperscript{127} the requirement for sentences to be proportionate\textsuperscript{128} will affect the levels of fines imposed on certain types of companies. For small companies, it is recognised that a ‘degree of overlap’ should be maintained between the range of sentences applicable to individual offenders and to small companies,\textsuperscript{129} to prevent disparities between sentences for small companies and unincorporated enterprises with similar characteristics (e.g. sole trader or family-run business).\textsuperscript{130} This enables artificial distinctions to be avoided, but from the point of view of any investigation, it also means that data regarding the effect of environmental liabilities on small companies would not easily be generalizable.

Non-generalizability is also evident in the sentencing of large companies, where in taking account of the financial circumstances of an offender,\textsuperscript{131} it is seen as being of ‘particular importance’\textsuperscript{132} that fines should be fixed so as to ensure ‘that the message is brought home to the directors and members of the company (usually the shareholders)’.\textsuperscript{133} The recent Court of Appeal decision in \textit{R v Sellafield Ltd; R v Network Rail Infrastructure Ltd}\textsuperscript{134} illustrates how this objective is applied in relation to environmental and health and safety offences committed by companies with a turnover exceeding £1 billion.

\begin{footnotesize}
\begin{enumerate}
\item R v Thames Water Utilities Ltd [2015] EWCA Crim 960, [41].
\item Final resource assessment (n.107), 8.2.
\item Definitive Guideline (n.108), 12.
\item Guideline Consultation (n.105), 24.
\item Response to Consultation (n.112), 19-20; Definitive Guideline (n.108), 7-10.
\item s.164 Criminal Justice Act 2003.
\item R v Thames Water Utilities (n.126), [35].
\item R v Sellafield Ltd; R v Network Rail Infrastructure Ltd [2014] EWCA Crim 49, [6].
\item Ibid.
\end{enumerate}
\end{footnotesize}
This matter involved appeals by Sellafield Ltd ('SL') and Network Rail Infrastructure Ltd ('NRIL') against fines between £500,000-£700,000 for breach of requirements for the storage and disposal of radioactive waste, and a collision at an unmanned level crossing respectively, on the basis that the fines were manifestly excessive. Comparing the governance of SL with that of NRIL, the Court of Appeal considered that it was evident that the imposition of a fine would affect them differently. As an ‘ordinary commercial company’,\(^{135}\) SL’s shareholders enjoyed profits by way of dividend and were few enough in number to be able to hold the directors to account for criminal breaches and future compliance;\(^{136}\) whereas NRIL was owned by a parent body which was a ‘not for dividend company’\(^{137}\) and invested its profits in the railway infrastructure ‘for the public benefit’.\(^{138}\) A substantial fine could therefore harm the public interest by undermining investment in the rail network and creating a deficit which would necessitate support from State funds.\(^{139}\) The court nonetheless had regard to evidence that directors’ bonus remuneration had been reduced partly due to NRIL’s poor safety record, a material factor in cases ‘where a fine inflicts no direct punishment on anyone’:

If...a bonus incentivises an executive director to perform better, the prospect of a significant reduction of a bonus will incentivise the executive directors on the board of companies such as Network Rail to pay the highest attention to protecting the lives of those who are at real risk from its activities. In short, it will demonstrate to the court the company's

\(^{135}\) Ibid, [7].
\(^{136}\) Ibid, [56].
\(^{137}\) Ibid, [57].
\(^{138}\) Ibid, [57].
\(^{139}\) Ibid, [69].
efforts, at the level of those ultimately responsible, to address its offending behaviour, to reform and rehabilitate itself and to protect the public.\textsuperscript{140}

Thus, with respect to companies fulfilling a ‘public’ role, apparently low levels of fines may be complemented by the financial loss borne by their management. Together with the pressure exerted on directors by significant fines imposed on large commercial concerns such as SL (equivalent to slightly ‘more than a week’s profit and about 2\% of its weekly income’\textsuperscript{141}), these sentencing factors are capable of being among the less visible contributors to the changes in corporate conduct aimed at averting or minimising future liability. This is reinforced by the Court of Appeal judgment in \textit{R v Thames Water Utilities Ltd},\textsuperscript{142} which indicates that in sentencing very large commercial organisations run for profit, the courts are not bound to adhere to, or even to start from, the range of fines provided by the Sentencing Council in relation to large organisations.\textsuperscript{143} In the most severe of these cases, regard to an offender’s full financial circumstances\textsuperscript{144} could well result in a fine representing ‘a substantial percentage, up to 100\%, of the company's pre-tax net profit for the year in question ... even if this results in fines in excess of £100 million’.\textsuperscript{145} These are consistent with the size of fines imposed in the financial services sector for breach of regulations.\textsuperscript{146} In the same vein, it may be anticipated that the necessity of bringing home the aggravating effect of repeated offences to directors and shareholders in this context will bring about a significant increase in the level of fines, to an extent that would be ‘sufficient

\begin{itemize}
\item \textsuperscript{140} Ibid, [70].
\item \textsuperscript{141} Ibid, [65].
\item \textsuperscript{142} (n.115).
\item \textsuperscript{143} Ibid, [36].
\item \textsuperscript{144} Ibid, [40].
\item \textsuperscript{145} Ibid.
\item \textsuperscript{146} Ibid.
\end{itemize}
to have a material impact on the finances of the company as a whole.\textsuperscript{147} Dismissing this appeal against a £250,000 fine, the Court of Appeal asserted that it would not have hesitated to uphold ‘a very substantially higher fine’\textsuperscript{148} – an outcome in keeping with its stance in previous cases involving environmental offences, against interfering with fines markedly greater than six figures.\textsuperscript{149} The financial implications of criminal sentencing practice should accordingly produce a severely punitive or deterrent effect\textsuperscript{150} for large and very large companies, as compared with small and medium enterprises, a point emphasised in the judgment:

Even in the case of a large organisation with a hitherto impeccable record, the fine must be large enough to bring the appropriate message home to the directors and shareholders and to punish them. In the case of repeat offenders, the fine should be far higher and should rise to the level necessary to ensure that the directors and shareholders of the organisation take effective measures properly to reform themselves and ensure that they fulfil their environmental obligations.\textsuperscript{151}

The impact of this approach has been noted by the Environment Agency’s director of legal services, who discerns that a significant result of the introduction of the sentencing guidelines has been ‘far greater engagement from senior managers of large companies’ in

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\textsuperscript{147} Ibid.
\textsuperscript{148} Ibid, [46].
\textsuperscript{149} Ibid, [38].
\textsuperscript{150} Purposes of sentencing set out in Criminal Justice Act 2003, s.142.
\textsuperscript{151} (n.115), [42]. See more recently I. Kaminski, ‘Yorkshire Water nets record-breaking £1.1 m fine for sewage pollution’ \textit{ENDS} (29 April 2016).
response to demands from the courts for ‘repeat offenders to explain at a senior level what
they are doing to prevent recurrences rather than leave mitigation to junior managers’.\footnote{152}{P. Kellett, The EA’s approach to enforcement undertakings’ 2016 ENDS 493.}

These developments in criminal sentencing should not be viewed in isolation. Changes in
enforcement strategies may help, more generally, to reduce the number of criminal fines
imposed on companies. The recent fall in waste crime prosecutions in England for example,
is attributed to the Environment Agency’s ‘proactive approach of targeting particular
improvement in the effectiveness of the Agency’s operations may be attributable to its
increased reliance on intelligence resources, enhanced collaboration with other agencies,
and new data collection and enforcement techniques.\footnote{154}{Ibid, 13-17.}

The scale of prosecution activity with respect to environmental offences is accordingly
limited in its capacity to reveal the full part played by criminal sanctions in triggering or
encouraging entry into insolvency proceedings. While this may be seen as a consequence of
the breadth and effectiveness of the remediation/enforcement strategies currently
employed by regulators and judicial sentencing authorities, low penalty levels or numbers of
criminal enforcement sanctions may also be ascribed to deficiencies in implementation such
as those identified with respect to the nature of sentencing practice in the past. Inversely,
offences may be committed in an effort to stave off financial distress – in a recent
prosecution of a waste management company and its director for storing 80 tonnes of
illegal hazardous waste despite a previous conviction (with a £10,000 fine) and warnings

\footnote{152}{P. Kellett, The EA’s approach to enforcement undertakings’ 2016 ENDS 493.}
\footnote{154}{Ibid, 13-17.}
from the Environment Agency, it was admitted that deliveries of waste to the site had continued ‘for commercial reasons’ in order to avoid insolvency.\textsuperscript{155}

On this basis, it is submitted that it is the effectiveness of enforcement methods which calls for thorough examination and response. This argument is supported by the independent review of the regulation of opencast coal operations in East Ayrshire, conducted following the insolvent liquidation of the Scottish Coal Company Ltd (‘SCC’) and Aardvark (TMC) Ltd (‘ATL’) – both major coal-mining operators in the area – that highlighted several failings.\textsuperscript{156} These included the ‘wholly deficient and defective’ process in place for calculating and monitoring restoration guarantee bonds,\textsuperscript{157} and ‘wholly inadequate’ monitoring of the sites which (together with the operators’ persistent breaches of their planning permission and statutory agreements) ‘created extensive environmental degradation’.\textsuperscript{158} A consultation launched by the Scottish Government in the wake of the collapse of SCC and ATL reflected on how regulation of the opencast coal sector could be strengthened to ensure greater restoration of sites, through various pre-emptive devices such as guarantees provided by the mining operator or its parent company, industry-led restoration schemes, the imposition of liability on landowners, increased community involvement through liaison committees and enhanced support for planning authorities or compliance monitoring activities.\textsuperscript{159} Inasmuch as regulatory action through civil sanctions\textsuperscript{160} or the prospect of

\textsuperscript{155} C. McGlone, ‘Cornish waste firm fined again for permit breach’ \textit{ENDS} (21 April 2016)
\textsuperscript{157} Ibid, 4.
\textsuperscript{158} Ibid.
\textsuperscript{160} See e.g. O. Pedersen, ‘Environmental Enforcement Undertakings and Possible Implications: Responsive, Smarter or Rent Seeking?’ (2013) 76 (2) MLR 319, 342-343: the self-reflection attendant on the process of formulating and agreeing an enforcement undertaking may bring about long-term changes in the organisation and conduct of offending bodies. I. Kaminski, ‘The growing role of enforcement undertakings’ \textit{ENDS} (04
heavy criminal fines have spurred businesses to engage more actively with environmental compliance requirements, this example implants some hope that corporate failures of this nature will provide significant markers against which governmental authorities can measure the adequacy of their enforcement policies and procedures. Such governmental considerations will become increasingly important as recognition of the contribution that environmental policy and regulation can make to economic growth becomes more widespread, as discussed below.

IV(c) The role of the environment as a tool for economic growth

IV(c)(i) Linking environmental interests with economic growth

Increased emphasis in the UK on environmental policy and regulation as a tool for economic growth may further lessen insolvency risks (or incentives) for businesses. Contrary to the view that ‘economic growth is ... necessarily at odds with the environment’, the central role of the natural environment in relation to economic activity and growth dictates that ‘[e]conomic and environmental performance must go hand in hand’.¹⁶¹ This is acknowledged by Defra:

Designing policies such that the regulatory burden on the economy is minimised is essential for realising all the potential growth benefits of environmental policy – in terms of improving overall economic efficiency and in terms of securing long-term growth. Through this, environmental

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policy can help increase prosperity and wellbeing – not just greater incomes but improved health, education and quality of life – for future generations.\(^{162}\)

Measures aimed at easing regulatory burdens to enable economic growth considerations to be integrated more deeply into approaches to regulation, include the duty for non-economic regulators to ‘have regard to the desirability of promoting economic growth’ in exercising their functions. This ‘growth’ duty, enacted through the Deregulation Act 2015,\(^{163}\) extends to regulators such as the Environment Agency and Natural England,\(^{164}\) seeking to ensure that their duties are performed in a proportionate manner and with due consideration to the economic consequences of their actions.\(^{165}\) Its introduction through primary legislation signals that ‘economic consequences can and should be a key factor taken into account in regulators’ decision-making’,\(^{166}\) empowering regulators to ‘support prosperity as well as to protect’ in the exercise of their regulatory functions.\(^{167}\) The duty is expected to propel regulators’ recourse towards interventions which favour growth as well as compliance,\(^{168}\) and is thus consistent with the shift from ‘traditional enforcement methods and sanctions’\(^{169}\) in the context of environmental protection. Its significance is underlined by the expectation that regulatory interventions which do not support growth should be justified.\(^{170}\) The belief that ‘protection and growth are not mutually exclusive’ and regulatory frameworks are capable of contributing to both goals, has also been echoed with respect to the recent

\(^{162}\) Ibid, 42.
\(^{164}\) Government Response ibid, Annex A.
\(^{165}\) ibid, 1.2.
\(^{166}\) ibid, 2.1.
\(^{167}\) ibid, 3.1.
\(^{168}\) ibid, 4.10.
\(^{169}\) ibid.
\(^{170}\) Ibid, 3.7.
revision of the statutory code of practice for regulators, the Regulators’ Compliance Code.\textsuperscript{171}

A key principle of the newly-published Regulators’ Code, to which regulators are required to have regard in the adoption of policies and procedures supporting performance of their duties, is that ‘regulators should carry out their activities in a way that supports those they regulate to comply and grow’.\textsuperscript{172} This entails avoiding the imposition of unnecessary burdens, considering ‘whether similar social, environmental and economic outcomes could be achieved by less burdensome means’; and selecting ‘proportionate approaches to those they regulate, based on relevant factors including, for example, business size and capacity’.\textsuperscript{173} It moreover requires regulators, in designing and reviewing their policies, procedures and practices, to evaluate the extent to which they promote economic growth, for instance by minimising the costs of compliance and the ‘negative economic impacts of … regulatory activities’.\textsuperscript{174}

\textbf{IV(c)(ii) Waste policy and economic growth}

This co-option of regulatory protection interests into the economic growth agenda, although somewhat nascent, seems set to curtail rather than strengthen the likelihood of environmental claims featuring widely in corporate insolvencies. The link between environmental and economic interests is further supported by the development of policies surrounding the prevention and reuse of waste. The Government has identified a crucial priority to boost economic growth ‘whilst continuing to improve the environment’ through

\textsuperscript{171} Ibid, 1.2; Part 2 Legislative and Regulatory Reform Act 2006.

\textsuperscript{172} Department for Business Innovation and Skills, \textit{Regulators’ Code} (Crown, 2014), 3.

\textsuperscript{173} Ibid, 1.1.

\textsuperscript{174} Ibid, 1.2.
the development of ‘a more resource efficient, circular economy’. Effective waste prevention, reduction and reuse will not only enable businesses to make a major contribution to the economy, but also create savings capable of enhancing their financial position and competitiveness. Added benefits include generating opportunities for the development of innovative products, technologies and services; and reducing the environmental impact of waste in the form of carbon emissions and the use of hazardous materials. Similarly, the House of Lords Science and Technology Select Committee has stressed that ‘environmental and economic imperatives need not be seen to be in conflict’ in the context of waste policy, as a waste-based bioeconomy can yield significant financial returns and support employment. The Government has adopted the Committee’s recommendation that responsibility for championing waste as a resource, coordinating activities across Government, and producing a long-term plan to support the extraction of maximum value from waste be conferred on a Minister in the Department for Business Innovation and Skills (‘DBIS’). This accords with the Conservative Party 2020 Group’s proposals for the reform of waste policy. The Group notes the advantages of treating waste ‘as a business opportunity that can drive higher profits for UK businesses’ through the reduction and reuse of inputs, and the emergence of new markets for products derived

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175 HM Government, *Prevention is better than cure: The role of waste prevention in moving to a more resource efficient economy* (Crown, 2013), 5.
177 Prevention is better than cure (n.175), 10-11.
179 Ibid, [150].
181 Waste or resource (n.178), [148].
183 Ibid, 19.
from waste.\textsuperscript{184} It consequently advocates that State policy regarding waste be re-designated ‘resources’, with responsibility for its oversight and implementation transferred from Defra to DBIS where it would enjoy ‘strong sectoral support as a commercial opportunity’ rather than remaining confined to environmental considerations.\textsuperscript{185} At European Union level, this outlook is expressed in policy moves aimed at transforming Europe ‘into a more competitive resource-efficient economy’ through measures including legislative proposals on waste targets.\textsuperscript{186} It is thus widely recognised that the exploitation of economic opportunities provided by waste can contribute to a reduction in landfill\textsuperscript{187} by diverting waste for the purpose of converting it into valuable assets,\textsuperscript{188} and promoting resource efficiency through the reuse/recycling\textsuperscript{189} and enhanced durability\textsuperscript{190} of products. Development of these policies may affect the incidence of claims arising from waste management operations, including potential civil claims arising from the effects of poor waste management on human health.\textsuperscript{191} It may furthermore assist in easing pressures on landfill operators: the financial distress and dissolution of companies in this sector has in the past been attributed to the weight of environmental protection requirements.\textsuperscript{192}

\begin{footnotesize}
\begin{itemize}
\item[\textsuperscript{184}] Ibid, 20.
\item[\textsuperscript{185}] Sweating our Assets (n.182).
\item[\textsuperscript{187}] Sweating our Assets (n.182).
\item[\textsuperscript{188}] \textit{Waste or resource?} (n.178), [9].
\item[\textsuperscript{189}] European Commission, ‘Roadmap to a Resource Efficient Europe’ COM/2011/571 final, 8.
\item[\textsuperscript{190}] S. Inglethorpe, ‘DEFRA launches £0.8m fund for innovative waste prevention partnerships’ \textit{ENDS} (29 May 2014).
\item[\textsuperscript{192}] Shelbourn, (n.60).
\end{itemize}
\end{footnotesize}
IV(c)(iii) The ‘natural capital’ movement

These developments coincide with increasing interest in the ‘natural capital agenda’, whereby the UK’s ‘natural assets are valued in the same way as national infrastructure’. Proponents argue that increasing the visibility of nature in an economic sense will help to prevent continued unsustainable levels of damage by ensuring that all benefits attached to such assets are accounted for by valuing them, and using techniques such as pollution taxes to avert a decline in their ‘overall amount and condition’. This would enable businesses to identify and avoid costly or hazardous risks and practices, for instance opting to develop brownfield sites rather than destroy woodland areas. Additional motivation may be provided in future by the introduction of environmental impact bonds, under which the government would contract to pay a certain amount in exchange for the fulfilment of environmental targets.

It has yet to be seen to what extent this growing consensus towards economic interests being promoted, rather than impeded, by environmental protection objectives (and contributing positively to the latter) will have a discernible or lasting impact. Will they, for example, boost the remediation of contaminated land by private developers, or the effectiveness of waste management? It is recorded that landowners are ‘sitting on two million acres of wasteland that could generate around £7 [billion] in natural capital’, and such financial values could inform decision-making regarding the management of such land. Importantly, would these developments affect companies of all sizes in equal

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193 R. Salvidge, ‘Truss backs natural capital agenda’ ENDS (15 October 2015) – indicating that the UK’s natural assets were worth at least £1.6 trillion.
194 Ibid; R. Salvidge, ‘Valuing nature: a necessary evil’ ENDS (26 October 2015.)
197 R. Salvidge, ‘Wasteland could generate £7bn in natural capital’ ENDS (12 October 2015)
measure? The ‘natural capital protocol’, aimed at enabling businesses to ‘assess and better
manage their direct [and] indirect interactions with natural capital’ by providing guidance on
valuing their impact and dependence on natural assets,\(^\text{198}\) is being developed by a coalition
which focuses on ‘global stakeholder engagement’ and has many large (and multi-national)
corporations among its members\(^\text{199}\) - more than 40 of whom have led the first trial of the
protocol.\(^\text{200}\) Although the protocol promises to be useable ‘in different business applications’
at ‘different organizational levels’ in ‘all business sectors across all geographies’\(^\text{201}\), it may
prove difficult for an instrument of such breadth to meet the needs of a wide variety of
business types and sizes.

Arguably, the motivation for large companies to engage with such initiatives may stem more
forcefully from their exposure to substantial criminal penalties for environmental offences
(discussed in IV(b) above). Indeed, the Environment Agency’s director of legal services has
also identified a significant effect of the introduction of the sentencing guidelines as being
that ‘some previously intractable problems have been fixed, perhaps because the level of
sanction has driven investment and creativity’.\(^\text{202}\) The extensive nature of these businesses’
operations means that the benefits of their improved compliance and handling of natural
resources would have far-reaching effects. However, it is less clear what incentives would
drive smaller businesses to embrace voluntary initiatives when their levels of compliance
with statutory obligations are already a source of concern: recent research has established
that 94% of businesses which fail to comply with their statutory obligations regarding the


\(^{199}\) Including Burberry, Coca-Cola, Marks and Spencer, Nestle, Novartis, Roche, Shell, Skanska, Tata, WalMart:

\(^{200}\) R. Salvidge, ‘Multinationals pilot natural capital protocol’ [ENDS](https://www.ends.co.uk) (13 October 2015) – ‘companies trialling [the
pilot programme] include the Coca-Cola Company, the Dow Chemical Co, F. Hoffman-LaRoche, Hugo Boss,
Kering, Natura, Nespresso, Nestle, Olam International and Shell.’


\(^{202}\) (n.152).
safe management of waste are small and medium-sized enterprises. The impact of the developments outlined above might therefore take some time to permeate all relevant types of business operations.

V. Conclusions

Ultimately, the issue of how the law can effectively respond to situations where a company which is subject to environmental obligations becomes insolvent should be addressed, in particular the question whether it calls for resolution through legislative reform. This paper questions the urgency of such reform, taking account of the extent to which certain mechanisms within the framework of environmental protection already play a part in tempering the danger of (or necessity for) a company to rely on insolvency proceedings for shelter from such liabilities. There is room to explore the scope for these, and any other mechanisms, to be developed in a way that more strongly supports the diminution of this insolvency risk – without compromising the goal of environmental protection.

It is accepted that the mechanisms considered above are not without their weaknesses. These include the complexity of the Part 2A regime for dealing with historic contamination, the uncertainty resulting from the looming cessation of State funding for investigation and remediation of sites under the regime, and the public cost incurred due

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204 Fogleman, (n.85).

205 S. Evans, ‘Death knell for Part 2A funding’ ENDS (10 December 2013); Examination of contaminated land sector activity in England and Wales – SP1011 (Cranfield University, C.L.A.I.R.E., 2014); R. Salvidge, ‘Contaminated land figures contested as remediation funding dries up’ ENDS (22 April 2015); G. Simkins, ‘Wales slow to remediate contaminated land’ ENDS (21 April 2016).
to the apparent generosity of local authorities’ application of the hardship criteria in their
decisions regarding recovery of remediation costs.\textsuperscript{206} The financial downturn has
furthermore hampered the ability of developers to undertake voluntary remediation
through the planning regime,\textsuperscript{207} while governmental funding for tackling waste crime seems
limited.\textsuperscript{208}

On the basis of the factors considered in Part IV above, it may however be doubted whether
evidence could be found depicting the widespread evasion or discharge of environmental
claims through insolvency proceedings in the UK. Moreover, insofar as these factors shed
some light on the ways in which environmental law and policy can be (and is) employed in the
balancing act between the goal of environmental protection and the survival of companies, they helpfully restore the focus on the ability of the enforcement framework to
support companies in preventing and remedying environmental damage. An approach that
aims at strengthening these efforts would help to steer the debate away from the apparent
inadequacy of the insolvency legislation to ensure that a debtor’s environmental obligations
are fulfilled. This could in time lead to the insolvency legislation being regarded as playing a
residual role, intervening as a last resort where the most robust policy and legal safeguards
have failed. Even then, the liquidation of a company would not necessarily preclude the
restructuring or sale of its business/assets with a view to ensuring that the elements which
require in-depth restoration can gradually be taken over by the purchaser – as witnessed in
the sale of assets by the ‘Scottish Coal Company and Aardvark (TMC) Ltd, whereby mining
activities in problematic sites owned by the two companies would initially be supported by

\textsuperscript{206} Lees, (n.100).
\textsuperscript{207} A. Wiseman, ‘Getting to grips with the new land remediation guidance’ ENDS (Special Report, October
2013).
\textsuperscript{208} I. Kaminski, ‘No clear funding for new DEFRA waste crime pledges’ ENDS (9 September 2014).
the company which had purchased the companies’ viable sites.\textsuperscript{209} In due course, if the ‘outstanding restoration issues were resolved on commercially acceptable terms’ the purchaser would take over the two companies’ interests in the problematic sites and integrate them into its corporate group.\textsuperscript{210} The task of calibrating the ideal balance between striving for the highest degree of environmental protection, and curbing the negative effects of a company’s failure, will be of prime importance in the future development of this area of law.

\textsuperscript{209} See news releases by HSP: Acquisition of Assets from Aardvark (TMC) Ltd (16 May, 2013) and Acquisition of Assets from The Scottish Coal Company Ltd (5 July, 2013) - available from http://www.hsgplc.co.uk/investors/regulatory-news.aspx (accessed 31 July 2016).

\textsuperscript{210} Ibid.