Abstract

Most firms that process rubber in Sri Lanka do not comply with national water pollution control standards. This study seeks to estimate a pollution tax that could motivate firms to meet these standards. The authors use data from 62 rubber producing firms in Sri Lanka over three years to estimate a marginal cost function for pollution abatement. They then estimate the taxes that would bring firms into compliance. The tax rate necessary for environmental compliance is 26 Sri Lankan rupees per 100 grams of Chemical Oxygen Demand (COD) per year. While the burden of a pollution tax on the average firm would be 8.6% of annual turnover, the tax burden varies with the size of the firm. The authors suggest that the use of such an economic instrument might motivate the Central Environmental Authority to monitor effluents more carefully and firms to make use of effluents.

Key words: water pollution, effluent taxes, rubber industry, Sri Lanka