



TRADEABLE PERMITS: IMPLICATIONS FOR MONITORING AND ENFORCEMENT

Presentation by

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Issues of Monitoring and Enforcement

- Emission Inventories & Resource Assessments
- Penalties and Compliance Cost Uncertainty
- Concepts of Compliance and Non-Compliance
- Political Demand for Monitoring and Enforcement
- Cost of Supply of Monitoring and Enforcement
- Delegation of Enforcement Functions
- Rent-Seeking and Administrative Tasks

Emission Inventories and Resource Assessments

- Emission inventories as a pre-condition for programme implementation
- Tradable permits and incentives to divulge information
 - Grandfathering permits and rent-seeking (TSP's in Chile)
 - Baseline-and-credit schemes and rent-seeking (UK ETS)
- Using permit price trajectories to assess the status of resource stocks (New Zealand Snapper Fishery)

Concepts of Non-Compliance

- Evidence of increased compliance (SO₂), but not always the case (high-value fisheries)
- Change in the conceptions of sanctions for non-compliance
- Explicit conversion of 'legal' sanction into an 'economic' sanction (UK PRN's vs. SO₂)
- Implications for 'optimisation' of degree of compliance

Penalties and Uncertainty

- Financial penalties for non-compliance as a permit price cap
- Reduces compliance cost uncertainty: implications for programme efficiency
 - abatement cost curves and economic efficiency (Danish CO2 programme)
 - price uncertainty and investment incentives (RECLAIM)

Political Demand for Monitoring and Enforcement

- Controversial nature of TP's and political demand for accurate monitoring
 - i.e. Alaska halibut fishery, American SO2 trading programme
- Private nature of transactions and public demand for ensuring integrity
 - i.e. American Wetlands Credit Trading Program

Cost of Supply of Monitoring and Enforcement

- Information revelation elements of tradeable permit schemes – i.e. permit prices and emission trends.
- Use of data to ‘optimise’ public authority’s expenditures on inspection regime (‘sorting’ of firms)
- Use of programme ‘rents’ to finance monitoring and enforcement efforts (Canadian and Iceland ITQ programmes)

Delegation of Enforcement

- 'Reach-out' programmes and the inclusion of unregulated sources (non-point sources under the Clean Water Act)
- Informal pressures – local communities, financial markets, reputation effects, etc...
- Internalisation of 'enforcement' within the firm (mainstreaming of environmental management)

Rent-Seeking and Administrative Tasks

- Not clear that costs of monitoring and enforcement decrease in all cases (importance of programme design)
- However, nature of administrative tasks do appear to change – able to focus more on environmental integrity of programme
- Less discretion with respect to compliance, and thus less rent-seeking by private agents, and less public expenditure on addressing such efforts