

Better Regulation Principles in the International Context

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The UK's 5 Principles of Good Regulation

transparency
proportionality
targeting
consistency
accountability

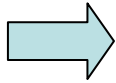
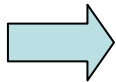
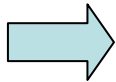
- These were first published by the Better Regulation Task Force (BRTF) 1997/98
- Taken over by the Better Regulation Commission (BRC) in 2006
- Now the responsibility of the Better Regulation Executive (BRE) in 2008, complemented by the new Risk and Regulation Advisory Council (RRAC)

Better Regulation Principles

~ A more complete picture ~

Functions	Principles
Policy principles - Identifying the problem and the policy making context - The 'missing' principles of good regulation	<ul style="list-style-type: none">• objectivity• coherence• completeness• credible commitment
Implementation principles - Addressing the problem cost-effectively	<ul style="list-style-type: none">• proportionality• targeting• consistency
Governance principles - Effective accountability underpins effective regulation	<ul style="list-style-type: none">• transparency• accountability

The Policy Implications of Codified Principles of Good Regulation

Principles	Application issues
<ul style="list-style-type: none"> • objectivity • coherence • completeness • credible commitment 	<ul style="list-style-type: none"> • public risk analysis • the polluter pays principle and equity • the precautionary principle and uncertainty • policy hierarchies <ul style="list-style-type: none"> - core versus complementary policies - ordering of policies and the comparative baseline - unbundling 'allied' policies
<ul style="list-style-type: none"> • proportionality • targeting • consistency 	<ul style="list-style-type: none"> • the cost-benefit test • quantitative and qualitative factors to be included • incremental analysis of costs and benefits in standard setting • specifying correctly the do-nothing and do-something options • a complete range of options for comparison • promoting self-regulation with strategic oversight
<ul style="list-style-type: none"> • transparency • accountability 	<ul style="list-style-type: none"> • giving reasons for decisions • effective scrutiny • the possibility of independent review

Application Context: Policy Principles

- **Public risk analysis**
 - analysis is required to see which ‘public risks’ the government should take on and manage, as opposed to ‘private risks’ which individuals manage

The criteria for assuming public risks includes:

- **public goods arising from missing markets:** including correcting asymmetry of information and providing the regulatory ‘infrastructure’ (institutions and processes)
- **public protection:** setting standards, including occupational safety
- **correcting externalities:** effects on third parties which need to be internalised into private costs and market prices
- **abuse of monopoly power and anti-competitive practice**
- **inequitable distributional outcomes**

Application Context: Policy Principles

- **The polluter pays principle**
 - implies cost-reflective prices for consumption of polluting goods and services rather than subsidies for alternatives, which promotes too much overall demand.
- **The precautionary principle and uncertainty**
 - gamble what you can afford to lose, and insure that which you cannot.
- **Policy hierarchy**
 - consider redistributive corrections after externalities have been internalised into cost-reflective prices
 - identify each policy explicitly with the core market or conduct failure being addressed. This separates core from complementary policies addressing associated market failures (eg, R & D support), and unbundles allied policies (eg, energy security from climate change policy).

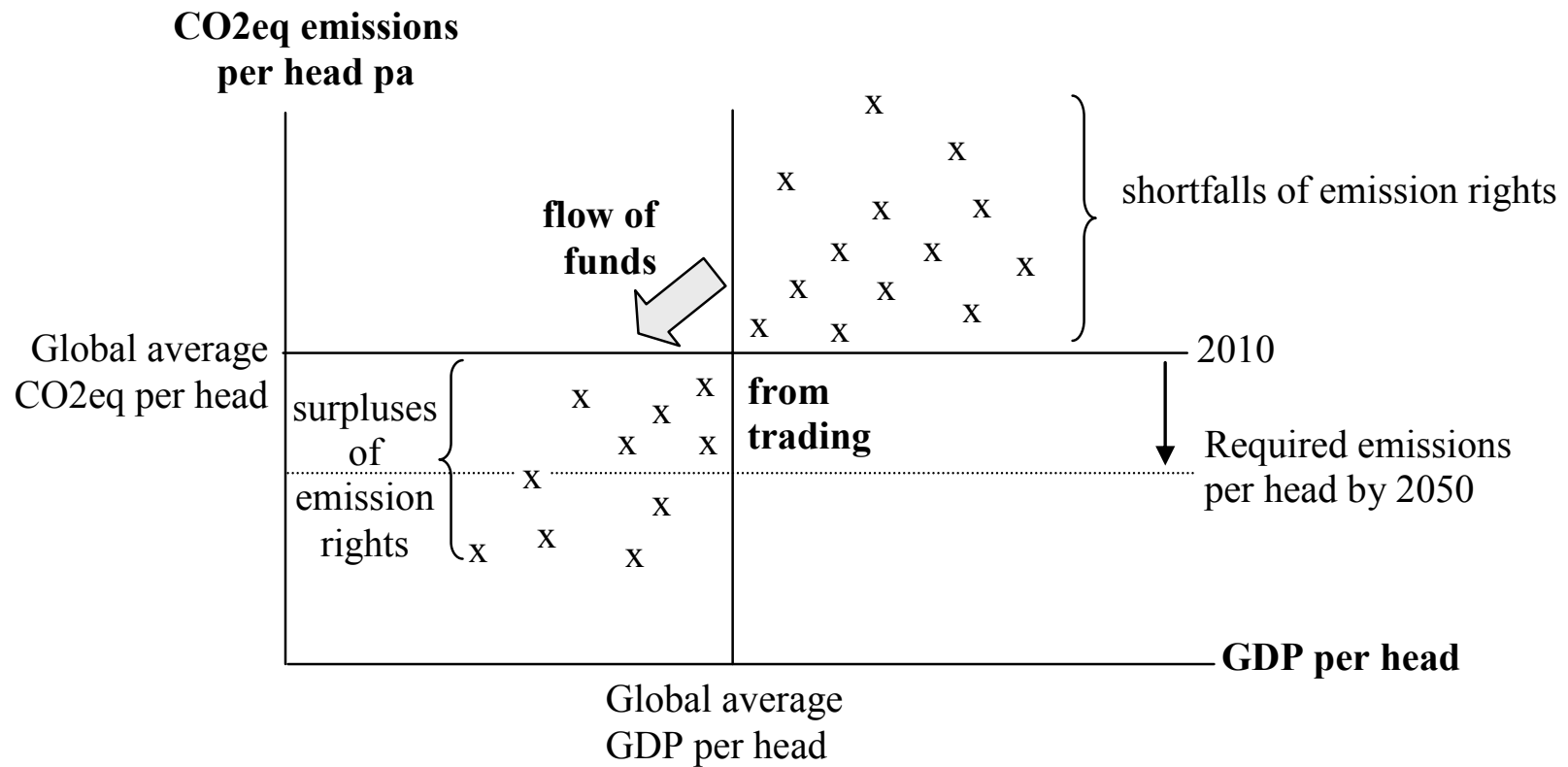
The Implications of Better Regulation

Principles for Climate Change Policy

- focus on the core objective: controlling the annual profile of aggregate global CO₂eq emissions to 2050 to avoid dangerous climate change
- secure international agreement on the core objective by agreeing an equitable distribution of 'initial' emission rights to countries
- initiate the necessary legal and institutional frameworks to allow international trading of allocations of 'initial' emissions rights
- thereby avoid the unnecessary proliferation of disconnected, bottom-up sectoral policies, and the specification of target CO₂eq emission cuts for particular countries

Illustrating the relationship between emissions and GDP (per head) and the flow of funds from allocation of 'initial' emission rights pro rata to population

(Xs = the countries of the world)



This is illustrated in a 10 point plan for climate change

An international strategic plan designed to achieve set global reductions in carbon emissions, take account of absorption by forests, and other land use changes, promote sustainable development through an equitable distribution of emission rights prior to trading, whilst allowing each country, through trading, flexibility to determine its own emissions path, and cost-effectively.

[see the 3 A4 pages in conference pack]

A ten point plan to tackle climate change effectively

By 2010 the international community:

- 1. Decides**, for the world as a whole, the profile of annual maximum aggregate CO₂ equivalent emissions to 2050 which are judged to be consistent with avoiding 'dangerous' climate change. **(See illustrative chart 1)**
- 2. Converts** each of the annual maximum limits to a global 'benchmark' of emissions per head (ie, the maximum allowed global CO₂eq emissions for the year divided by the world population).
- 3. Incorporates** agriculture and absorptive land uses (eg, forests) into the scheme by defining maximum CO₂eq emissions as direct emissions plus or minus changes in absorptive capacity from the 2010 base line (ie, the cumulative annual effect of cutting down and planting forests combined). **(See illustrative chart 2)**
- 4. Adopts** a global, all sector, all gases cap and trade scheme as the cost-effective means for the world to comply with the maximum allowed global CO₂eq emissions. The cap and trade system would yield an internationally-based 'price of carbon', thereby internalising the externality of CO₂eq emissions into consumption and production decisions throughout international and national supply chains.
- 5. Agrees** an 'initial' allocation of emission certificates to each country based on the global average emissions per head multiplied by the country's population, or a phased convergence. **(See illustrative chart 3)**
- 6. Requires** each country to implement a legal framework which establishes a National Carbon Authority (NCA) for each country (supported by an International Carbon Authority - ICA), and makes it illegal for a business, public sector or not-for-profit organisation, unless statutorily exempted, to carry out CO₂eq emitting activities anywhere in the world which are not backed by authorised carbon certificates (thereby including international aviation and shipping). It would cover fuel suppliers and gas suppliers to domestic users, albeit that the CO₂eq emissions occur at the point of use (eg, domestic car travel, cooking and heating). **(See illustrative 'two country' institutional structure)**
- 7. Confirms** that organisations with CO₂eq emitting activities would be required to register and, where exemptions are granted, an aggregate allowance for CO₂eq emissions by exempt entities would be deducted from the initial allocation by the NCA. Land uses would equally be registered, and a reduction in absorptive capacity from the agreed baseline year, say 2010 (eg, cutting down a forest) would require the purchase annually of emission certificates by the landowner, and increasing absorptive capacity would be rewarded each year by the NCA issuing further carbon certificates (credits) and paying the prevailing value of those certificates to the landowner. **(See illustrative chart 4)**
- 8. Expects** the national carbon authority to be responsible for controlling the production of annual emissions' certificates to the level of the 'initial' allocation from the ICA, distributing those certificates to registered entities by selling and/or allocation, facilitating and regulating the secondary trading markets and their international trading, monitoring compliance, and prosecuting as required fraud and malpractice. **(See illustrative 'two country' institutional structure)**
- 9. Accepts** that each country will comply with its international obligations by ensuring that the annual direct emissions by registered entities within its jurisdiction equal the 'initial allocation' from the ICA plus (or minus) emission certificates bought (or sold) internationally plus (or minus) the change in absorptive capacity of registered land uses, being the 'final allocation'. **(See illustrative chart 5)**
- 10. Declares** that the flow of funds between countries from above average to below average emitters per head arising from an 'equitable' pre-trading distribution of emission rights - a precondition for an effective, forward-looking international agreement to mitigate the effects of dangerous climate change - would be the foundation for clean, sustainable development, and in turn foster flows of low-carbon technology business to support that development.