

## Inspection and market-based regulation through emissions trading The striking reliance on self-monitoring, self-reporting and verification

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### Abstract

This contribution discusses inspection with regard to emissions trading. It focuses on the EU greenhouse gas emissions trading scheme. The core rule of emissions trading is that industries need to cover their emissions with tradable emission rights. There are several options for the government to distribute those rights, basically through a free allocation or an auction. The need to cover emissions with a tradable right gives a financial incentive to firms to choose for the reduction of emissions, of course related to the market price of the tradable right. This price-incentive at the same time urges governments to put in place a sound enforcement approach. One of the characteristics of current emissions trading schemes is that they heavily rely on self-monitoring duties. Nevertheless, the ultimate responsibility to inspect rests on the government. However, with the introduction of emissions trading a remarkable shift takes place: instead of the more traditional control of the actual behaviour of industries, inspection by the government ranges under the greenhouse gas emissions-trading instrument much more towards the control of self-monitoring activities. The use of verifiers within the EU greenhouse gas emissions trading scheme is in this respect a unique new provision, but at the same time raises many practical and fundamental questions.

### *Keywords*

inspection; emissions trading; self-monitoring; verification; agencies

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