



STATISTICS

Emissions Permits: The atmosphere as an asset?

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Speaker Name

Division/Title/Affiliation



Emissions Permits – An Overview

- ✓ An ETS is a flexible market mechanism and establishes a maximum level of pollution - a cap.
- ✓ Companies must have a permit to cover each unit of pollution they produce.
- ✓ Each company must have a permit with a sufficient quota of units of pollution to cover their polluting needs.
- ✓ Permits are initially provided by governments through auctions or are distributed free of charge. The purchase of the permit is not restricted to the polluting entity.
- ✓ Permits can be purchased by any market participant. It is presumed that only non-financial corporations will incur emissions liabilities and will need to offset these liabilities with emission permits.
- ✓ If companies exceed their quota for emissions, they can purchase unused permits from others, adjust their production or in the longer-term install technology that reduces emissions.



Headquarters,
Johnstown Castle Estate,
County Wexford, Ireland

GREENHOUSE GAS EMISSIONS PERMIT

Permit Register Number: IE-GHG058-10373-4

Operator: Intel Ireland Limited
Collinstown Industrial Park
Leixlip
Kildare

Emissions Permits – Current State of Play

- While ETS schemes, and carbon pricing schemes more generally exist, they are not large at the moment.
- That said, we know that over the next number of years there will be a large focus on climate change mitigation, and it is therefore important to address this issue.

	Year	
	2018	2019
Total Revenue ETS	20,292	21,161
Total Revenue Carbon Tax	23,860	23,671

source: CPI database

Table 1 Selected Carbon Pricing Arrangements, 2019

Country or Region	Year Introduced	2019 Price (\$/Ton CO ₂)	Coverage of GHGs, 2018	
			Million Tons	Percent
Carbon Taxes				
Sources: Stavins 2019; World Bank 2019a; and IMF staff calculations. Note: CO ₂ = carbon dioxide; GHG = greenhouse gas; na = not available.				
¹ The Regional Greenhouse Gas Initiative is a market-based program in 10 states in the eastern part of the United States.				
Chile	2017	5	47	39
Colombia	2017	5	42	40
Denmark	1992	26	22	40
Finland	1990	65	25	38
France	2014	50	176	37
Ireland	2010	22	31	48
Japan	2012	3	999	68
Mexico	2014	1–3	307	47
Norway	1991	59	40	63
Portugal	2015	14	21	29
South Africa	2019	10	360	10
Sweden	1991	127	26	40
Switzerland	2008	96	18	35
Emissions Trading Systems				
California	2012	16	378	85
China	2020	na	3,232	
European Union	2005	25	2,132	45
Korea	2015	22	453	68
New Zealand	2008	17	40	52
Regional Greenhouse Gas Initiative ¹	2009	5	94	21
Carbon Floor				
Canada	2016	15	na	70
United Kingdom	2013	24	136	24

Sources: Stavins 2019; World Bank 2019a; and IMF staff calculations. Note: CO₂ = carbon dioxide; GHG = greenhouse gas; na = not available. ¹ The Regional Greenhouse Gas Initiative is a market-based program in 10 states in the eastern part of the United States.

Current Guidance and Treatment

“These permits do not involve the use of a natural asset (there is no value placed on the atmosphere so it cannot be considered to be an economic asset) and are therefore classified as taxes even though the permitted “activity” is one of creating an externality. It is inherent in the concept that the permits will be tradeable and that there will be an active market in them. The permits therefore constitute assets and should be valued at the market price for which they can be sold.”
SNA 17.363

Current Treatment

- ✓ Other taxes on production (on an accrual basis) recorded as payables and receivables when issued.
- ✓ Changes in the value of the emission permit following its issuance are recorded as a non-produced non-financial asset (NPNF) of the permit holder.

The Atmosphere as an Asset

- The SNA states that the atmosphere is not an asset because there is no value placed on it **but...**
 - ✓ governments issue emissions permits meaning that they are exercising ownership rights over the atmosphere and restricting/regulating its use
 - ✓ the right to use the asset, as embodied in the emissions permit provides a benefit to the economic owner, either in terms of being able to continue to operate or as a potential financial investment.
 - ✓ the emission permits are marketable, can be readily sold and for which market prices can be established.
 - ✓ emission permits are designed to have a finite time period but will exist for longer than a year, the holder of the permit bears all the risks and rewards and they are transferable.

The Atmosphere as an Asset

- As such, emissions permits satisfy the conditions of an economic asset with the exception that currently the atmosphere is not recognized as an asset in the SNA.
- The accounting treatment could be simplified if we treat this as a balance sheet transaction and may better reflect the reality and purpose of the schemes in the National Accounts.

Question to AEG

- The Task Team on Well-being and Sustainability is considering a proposal which recognizes the atmosphere as an asset (but makes no attempt to value it), so that emissions permits can be treated as a non-produced non-financial assets and recorded as such in the SNA.
- The AEG is requested to provide feedback as to whether the Task Team should consider the atmosphere as an asset when forming its recommendations related to the treatment and recording of emissions permits.