



STATISTICS

**INTER SECRETARIAT
WORKING GROUP ON
NATIONAL ACCOUNTS**

WS. 7 Emission Permits – Global Consultation

Joint Thirty-Ninth Meeting of the IMF Committee on
Balance of Payments Statistics and Twenty-first Meeting of
the Advisory Expert Group on National Accounts

October 17–20, 2022

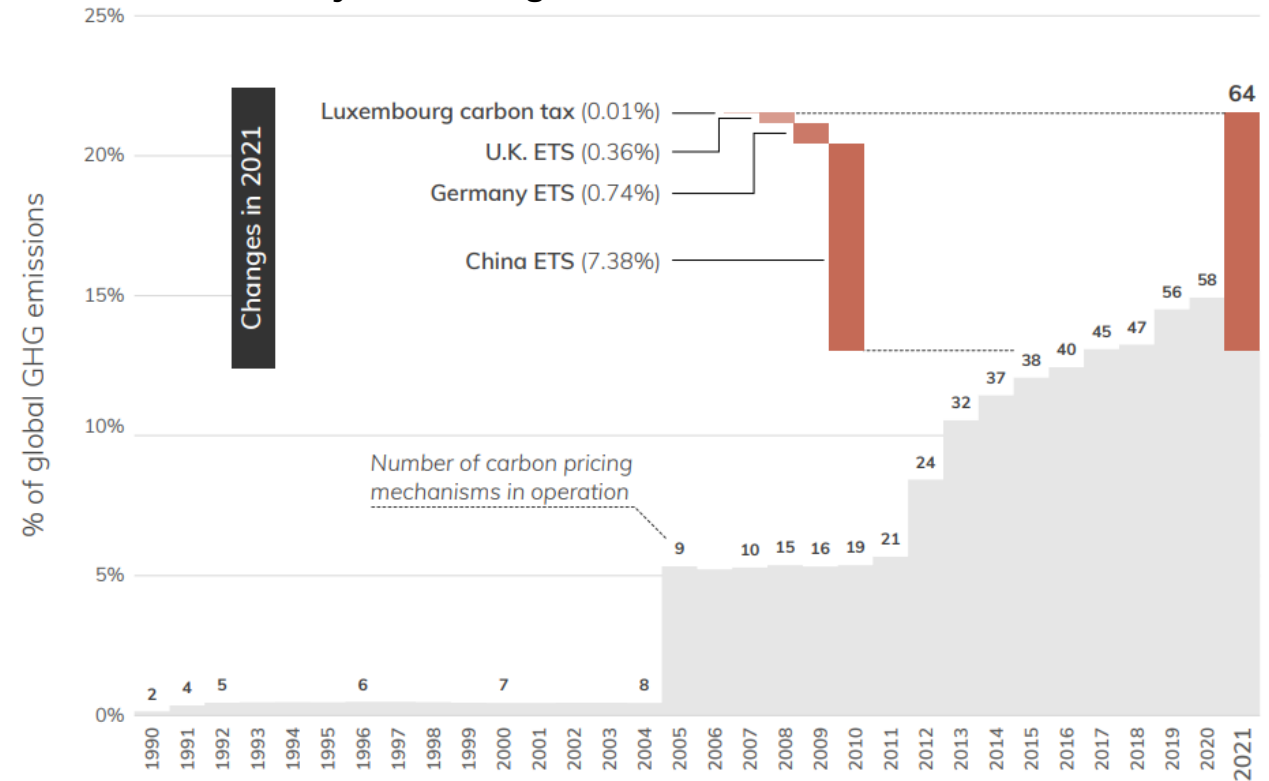
Outline

- **Background**
- **Proposed Recording of Emission Trading Schemes (ETS)**
- **Results from the Global Consultation Questionnaire**
- **Summary of Options**
- **Questions for Discussions**

Background

- To reduce GHG emissions, countries around the world are looking at putting a price on carbon emissions. Two of the more popular policy instruments include:
 - ◆ Carbon taxes
 - ◆ Emission trading schemes (ETS) (e.g., Cap and trade)
- These policies apply a price to a broad set of emission sources that are aimed at encouraging businesses and individuals to innovate and change their behavior and therefore reduce the level of GHG emissions.

In 2021, 21.5% of global GHG emissions are covered by carbon pricing instruments in operation, representing a significant increase on 2020, when only 15.1% of global emissions were covered



World Bank: State and Trends of Carbon Pricing 2021
<http://hdl.handle.net/10986/35620>

Emission Trading Schemes (Cap and Trade schemes)

Government establishes a cap on emissions

Governments create a permit and requires firms to hold a permit in order to emit.

Government auctions off the permit. The purchase is not restricted to emitting firms and the permit is marketable.

Once purchased, the purchaser is free to sell the permit at the going market rate.

It is presumed that only non-financial corporations will emit. If companies exceed their quota for emissions, they can purchase unused permits from others.

Firms must surrender permits corresponding to the gases they emit.

Recording Emission Trading Schemes

- The 2008 SNA provides “lite” guidance on the treatment of Emissions Trading Schemes.
- A clarification note was issued by the ISWGNA based on the deliberations of an OECD/Eurostat Task Force on the Treatment of Emission Allowances and Emission Permits in the National Accounts (Final Report October 2010).
- The SNA update Wellbeing and Sustainability Task Team has been asked to examine the current set of recommendations and propose alternatives.
- The proposed alternatives attempt to balance alignment with the conceptual framework, pragmatism and ensuring the transactions, flows and stocks are visible to users.

Proposed Recommendations for Recording of Emission Trading Schemes

Alternate Recording Treatments

- Option 1. Emission Permits as non-produced non-financial assets (contracts, leases and licenses right to use)
- Option 2. Emission Permits recorded as a resource lease (financial asset), with resource rent recorded at surrender.
- Option 3. Emissions Permits recorded as Contracts, Leases, Licenses with taxes on Production recorded at Auction
- Option 4a. Emissions Permits recorded as Financial Assets with taxes on production recorded at surrender (issuance value)
- Option 4b. Emissions Permits recorded as Financial Assets with taxes on production recorded at surrender (market value)
- Option 5. Emissions Permits recorded as split assets, with taxes on production recorded at surrender (current task force recommendation)

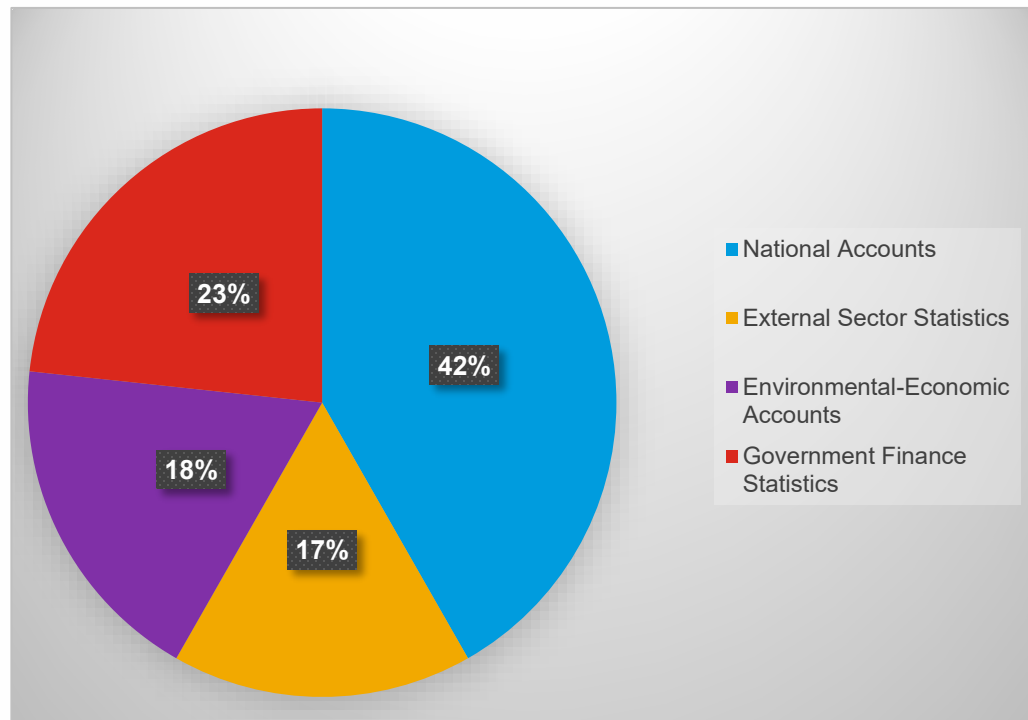
Multi-Country Schemes

- International or multi-country permit schemes/arrangements, such as the European Union Emission Trading Scheme (EU ETS) and the Western Climate Initiative pose additional issues for National accounts and Balance of payment compilers.
- With these types of schemes, the issuing country will receive the proceeds of the sale of the permits through an auction process, however the use (surrender) of the permits can be in a completely different jurisdiction, which could result to countries being net exporters of emission permits or net imports without any direct correlation with emissions in that country.
- Asymmetries between sectors - such as for net lending / borrowing (NLB), primary income (gross operating surplus) and tax revenue, public debt (issuing and accepting government) and instrument classification.
- Any options where secondary transactions are needed will create asymmetries

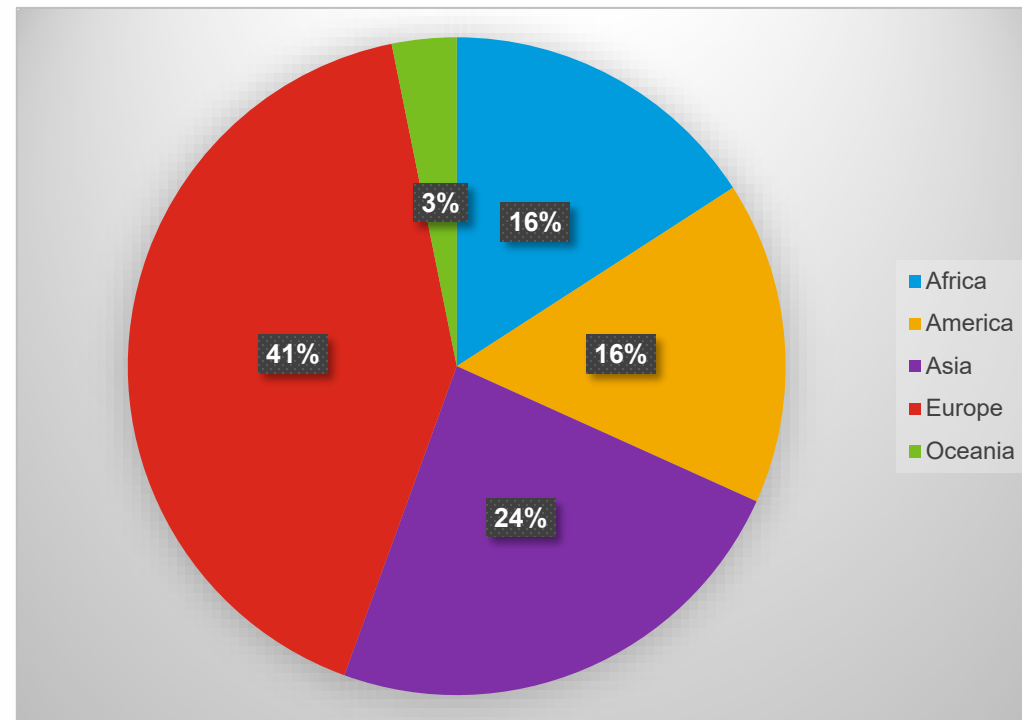
Results from the Global Consultation

Recording Emission Trading Schemes

Respondents by Domain



Respondents by Geographic Region

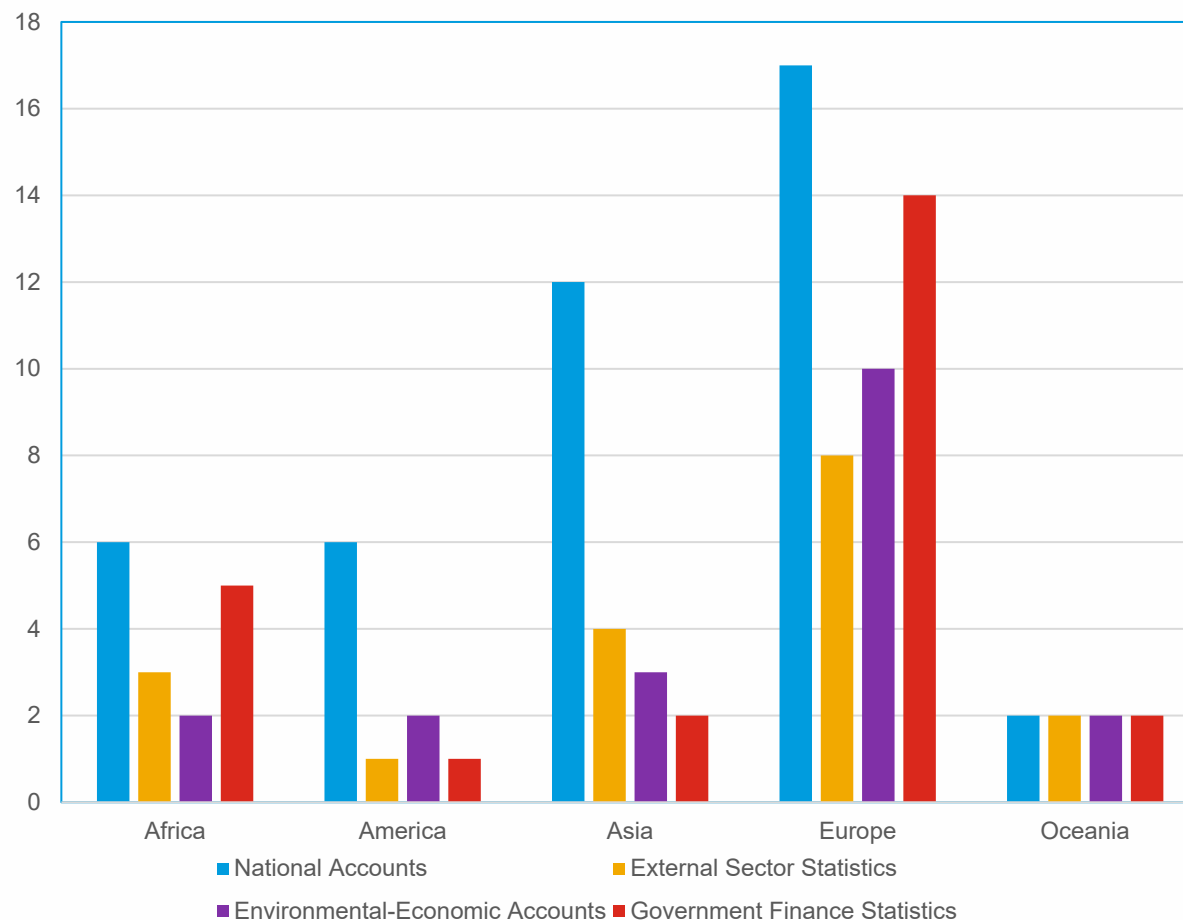


- In terms of domains, 41.7 per cent represent the national accounts (NA), followed by Government Finance Statistics (GFS) at 23.3 percent, Environmental Economic Accounts (EEA) at 18.4 percent and External Sector Statistics (ESS) at 16.5 percent.
- In terms of geographical regions, 55 economies participated to the global consultation questionnaire

Recording Emission Trading Schemes

- The responses to the survey are broadly representative in terms of region and by domain.
- 52 % of European economies responded to the questionnaire, followed by economies in Asia 24 %, Americas 19%, Africa 17% and Oceania 12%.

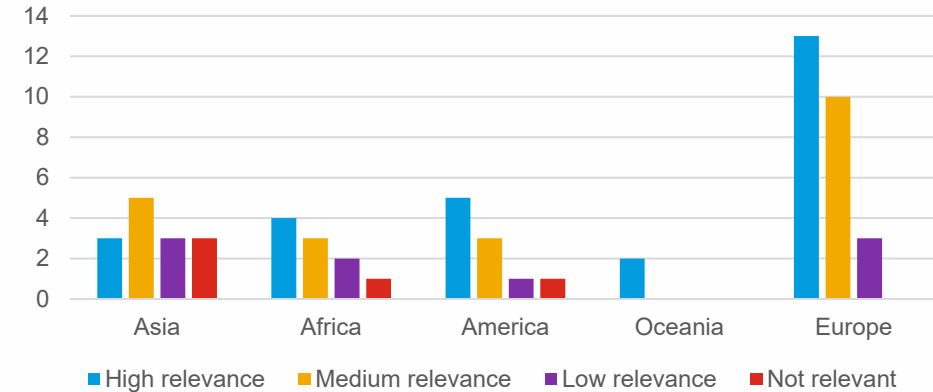
Respondents by Domain and geographic region



Is this topic relevant to your economy?

- ETS are a relevant issue across the globe as most respondents indicated the issue is either high or medium relevance.
- Overall, 80 % of the respondents indicated that the topic was either high or medium relevant.
- 3 respondents or 5 % indicated that it was not relevant in their economy.
- Similar results are obtained by domain – 82 %.

By Geographic Region

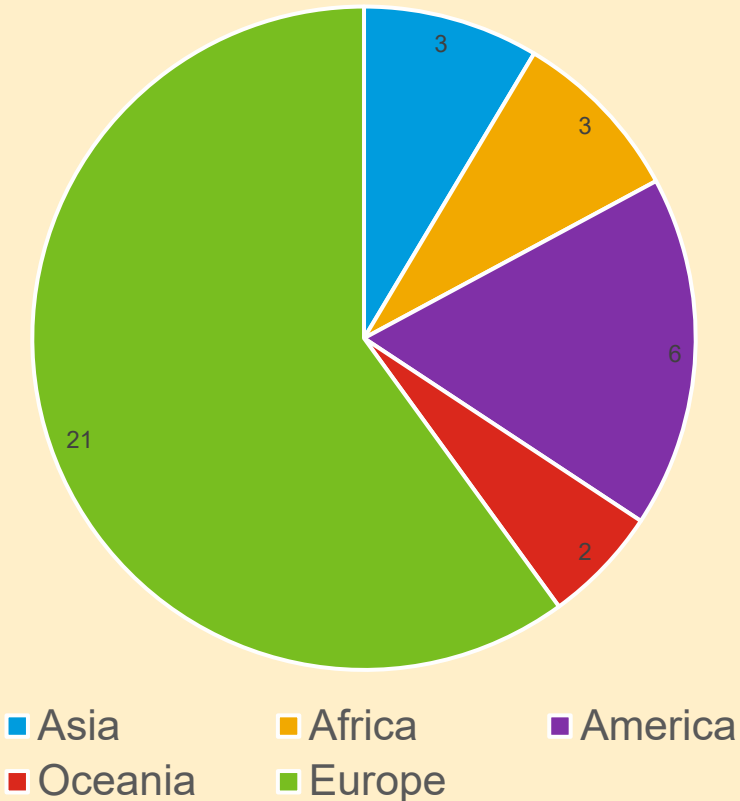


By Domain

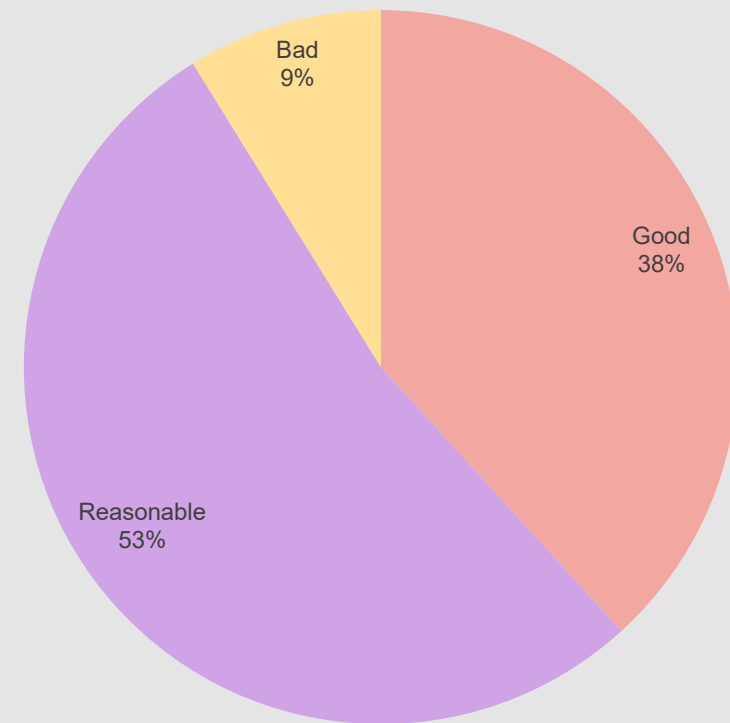


Does a Greenhouse Gas (GHG) emission trading scheme exist in your country?

Economies with an ETS



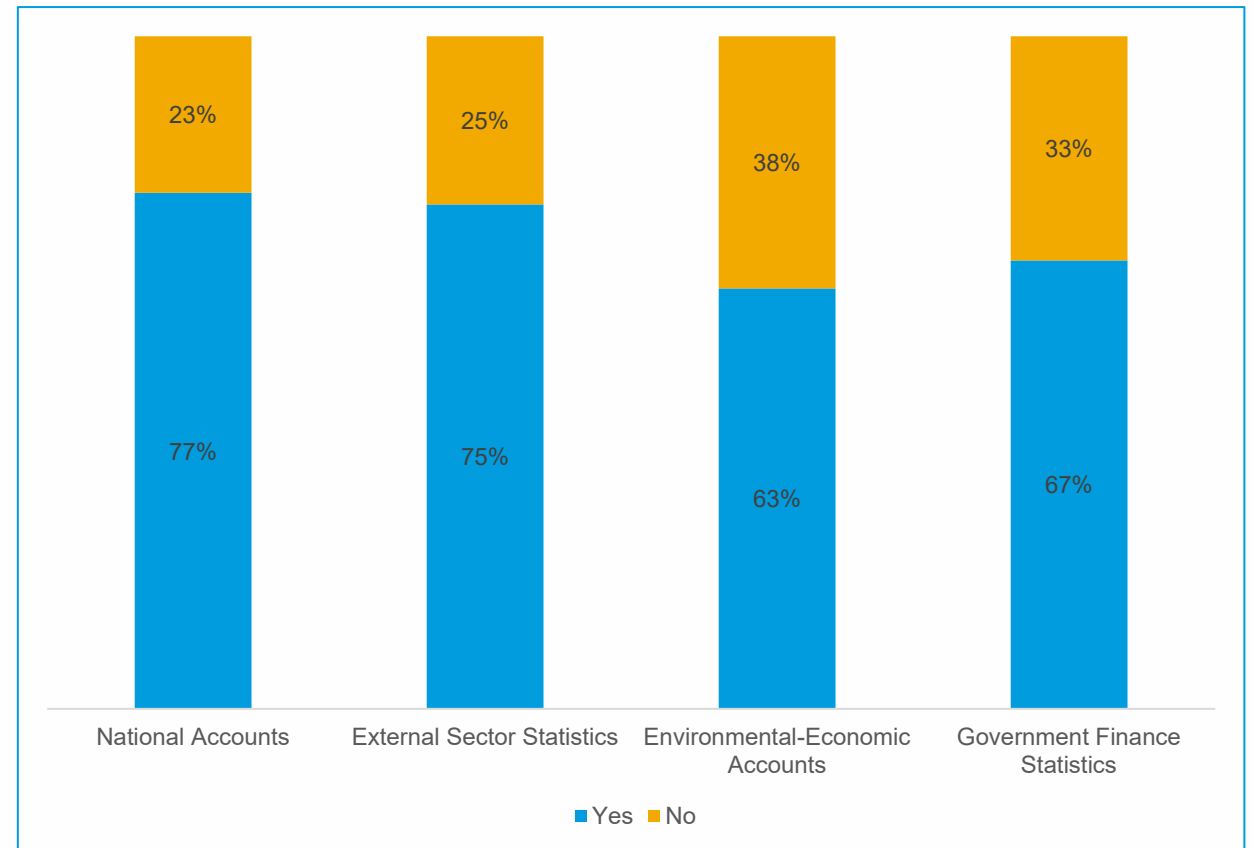
How would you qualify the data availability?



Do you agree with the recognition of the atmosphere as an implicit Asset?

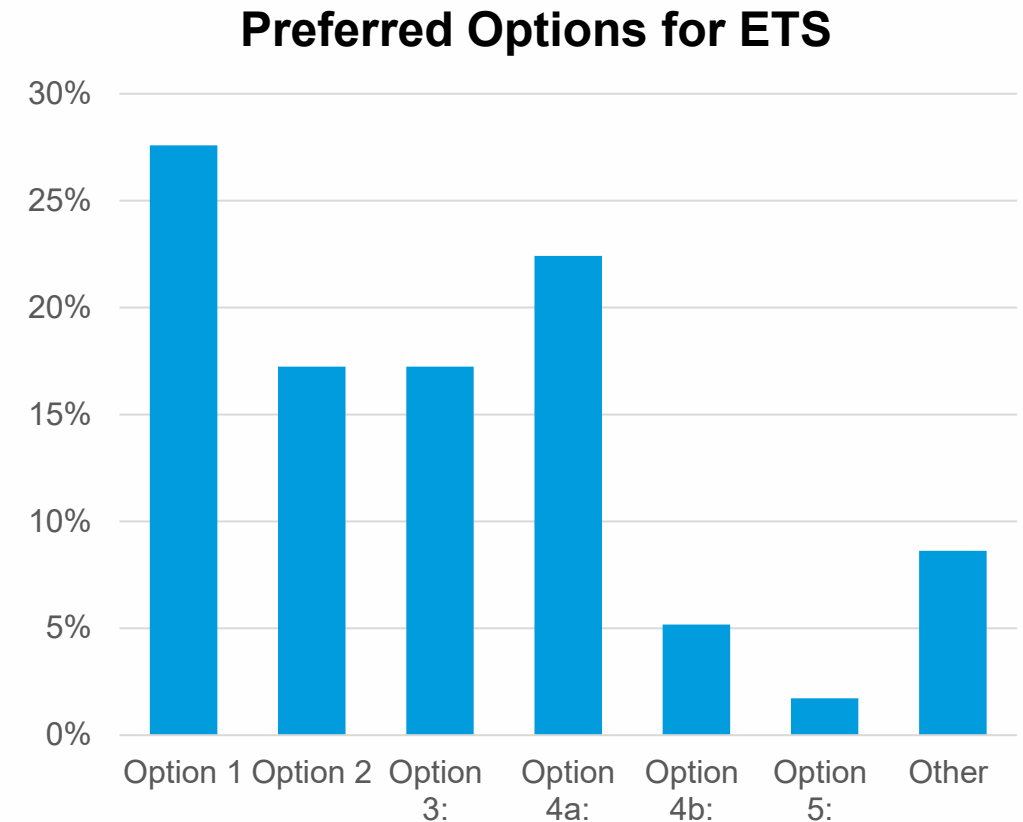
- Overall, 72 percent of respondents agreed with the recognition of the atmosphere as an implicit asset, while 28 percent disagreed with this notion.
- In terms of domains, 77 percent of NA respondents agreed with the notion of the atmosphere as an implicit asset, followed by, ESS, GFS and EEA.
- The principal reasons provided by respondents for not recognizing the atmosphere as an implicit asset is because ownership rights cannot be established.

Recognition of the Atmosphere as an Implicit Asset



What would be your preferred option for recording emission trading schemes?

- The top 3 options for recording ETS are: Option 1 - Emissions Permits recorded as a **non-produced non-financial asset – contracts, leases, and licenses**, is the preferred option for 16 respondents or 28 percent;
- This was followed by option 4.a Emission Permits recorded as a **financial asset** with taxes on production recorded at surrender (at issuance value), 22 percent (13 respondents)
- And a tie for third at 17 percent, option 2 - Emissions permits recorded as a **resource lease** and option 3 - Emissions permits recorded as **contract, leases, and licenses**, with taxes on production recorded at auction.



There was no clear majority for a particular option to record ETS

Proposed way forward....

The results of the global consultation were not conclusive. Option 1 was preferred by NA respondents whereas, Option 4a was the preferred choice for GFS respondents. Given there is no “right answer” should we take a principles approach and select the option that checks the most boxes?

Principle	Option 1	Option 2	Option 3	Option 4a	Option 4b	Option 5
Recognition of the Atmosphere as a natural asset	X	X	X			
Limited Source Data Requirements	X	X	X	X	X	
Clarity for Users	X	X	X	X	X	
SNA key Principles, such as accrual accounting		X			X	X
Economic Relevance (climate change)	X	X	X	X	X	X
Consistent with Company's Financial Statements		X			X	
Consistency with quotas and radio spectra	X	X				

Questions for Discussion

Keeping in mind that all the options have their merits and challenges

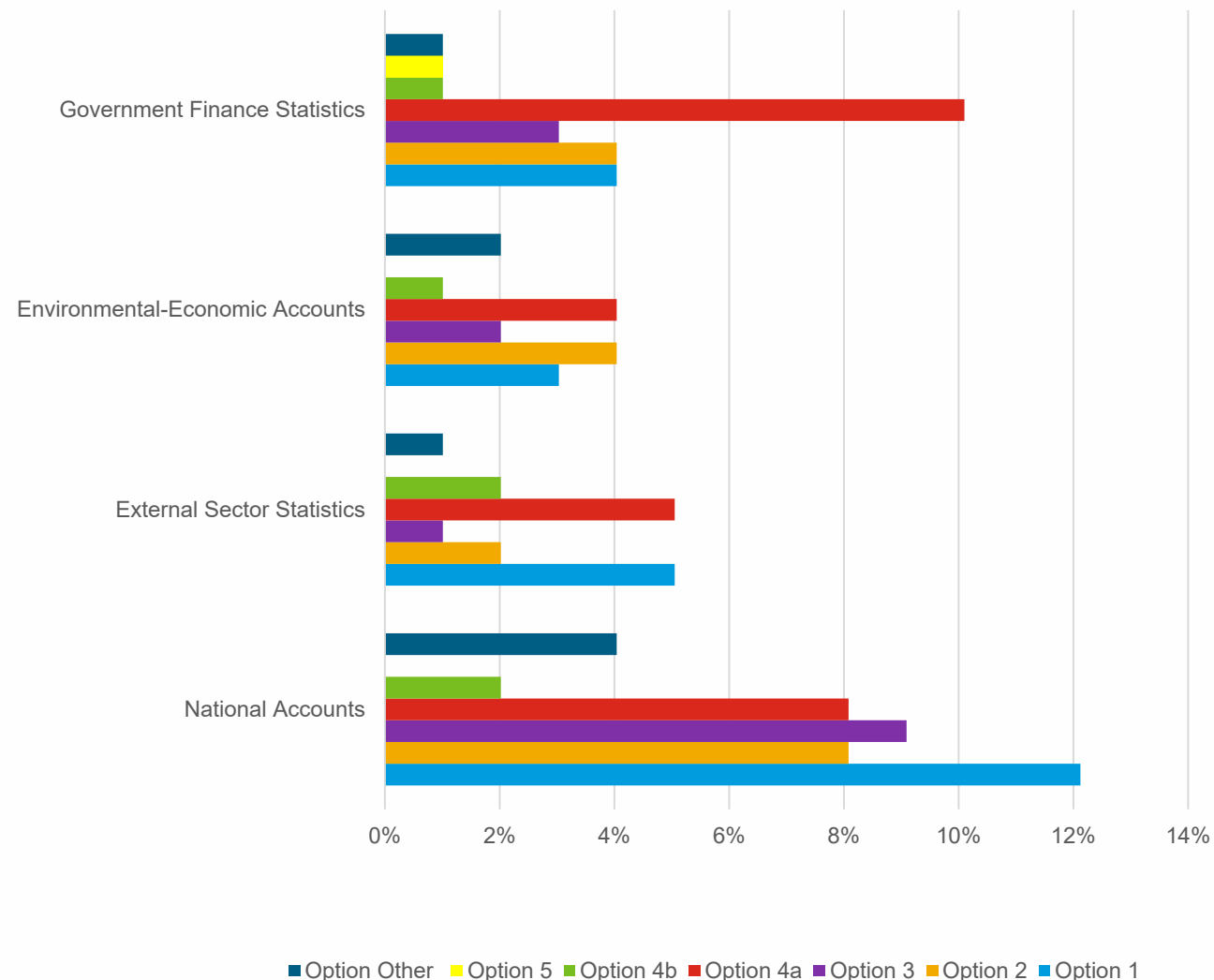
- Does the AEG agree we should take a principles approach to deciding on the preferred option?
- Does the AEG agree with the principles selected?
- Does the AEG agree that we should move forward with option 2 and instruct the editors to update the SNA accordingly?
- How does the AEG propose to reconcile the asymmetries if option 1 is not chosen.?

Additional Slides

What would be your preferred option for recording emission trading schemes?

- Although, overall option 1, is ranked the highest, emissions permits recorded as a non-produced non-financial asset – contracts, leases, and licenses. This is not the preferred option by domain.
- Option 4a Emission Permits recorded as a financial asset with taxes on production recorded at surrender (at issuance value), is the preferred option for GFS.
- For ESS, option 4a and option 1, are equally preferable.
- For EEA, option 4a and option 2 are equally preferable
- and finally for NA, option1 followed by 3.

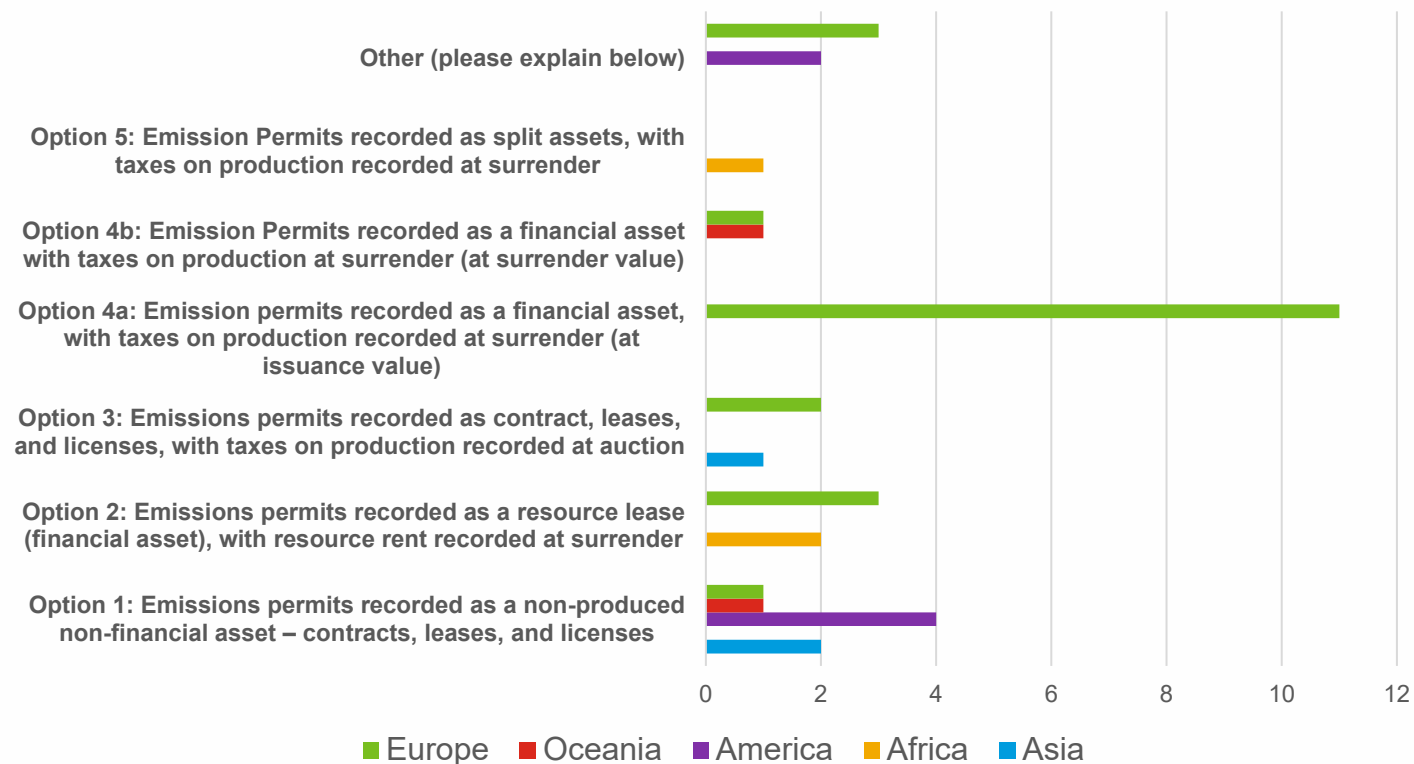
Preferred Option by Domain



What would be your preferred option for recording emission trading schemes and an ETS exists in your economy?

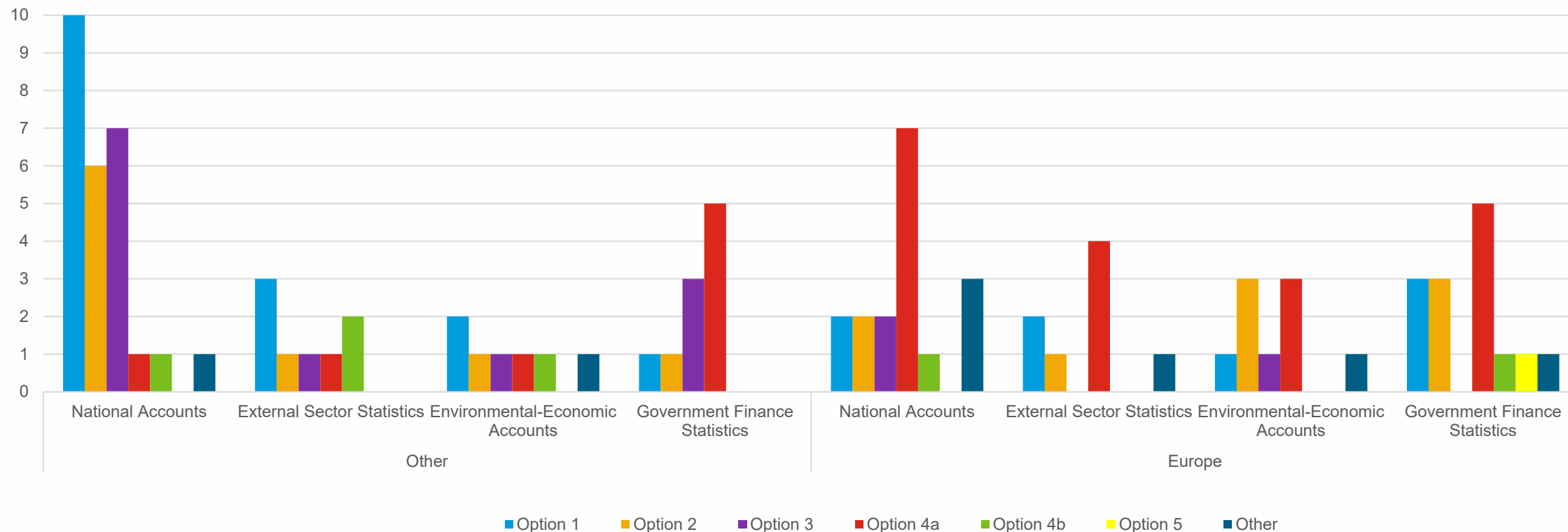
Preferred Option by Geographic Region with an existing ETS

- Overwhelmingly, European economies with an ETS prefer option 4a. Followed by option 2.
- Option 1, is preferred by economies in the Americas



What would be your preferred option for recording emission trading schemes by domain for European Economies and Other Economies

Preferred Option by Europe Economies - Other than European Economies



- For Europe as a whole, the preferred option by most domains is 4a. Respondents for EEA equally preferred option 2. This was not the case for other than European economies, where option 1 was preferred by NA respondents and 4a by GFS respondents.

How do you regard the feasibility of compiling your preferred option? (0 = Not feasible at all to 10 = Highly feasible)

What are the main strengths and challenges

- Option 1. “Easy to implement”. “Implementation challenges would include educating stakeholders about the new treatment and consideration for new data sources.”
- Option 4a treats all transactions in permits in the financial accounts, which makes it very simple. In addition, a tax revenue at time of surrendering, which we can proxy by taking a time adjusted cash approach averaged for a number of years.”
- Option 2 “also seems to us to be the most feasible way to map multinational ETSs in a meaningful way”

Feasibility of Compiling Preferred Option

