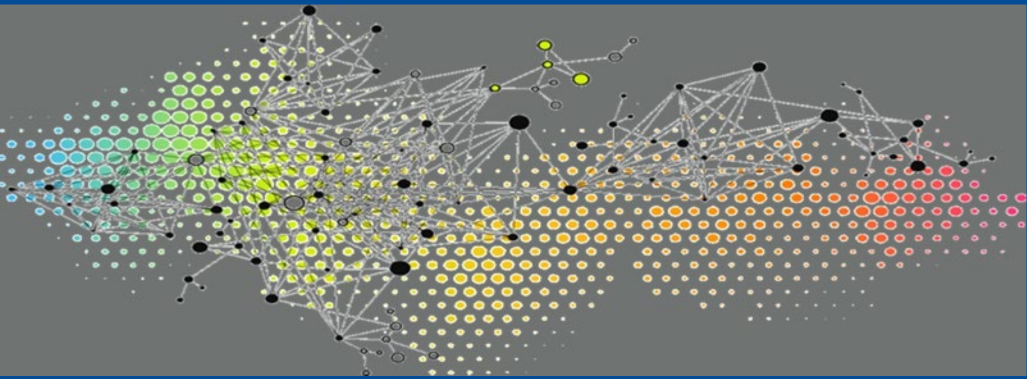


STATISTICS

INTER SECRETARIAT WORKING GROUP ON NATIONAL ACCOUNTS

# WS. 7 Emission Permits – Global Consultation (BOPCOM 22/XX)

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 18–20, 2022

# Outline

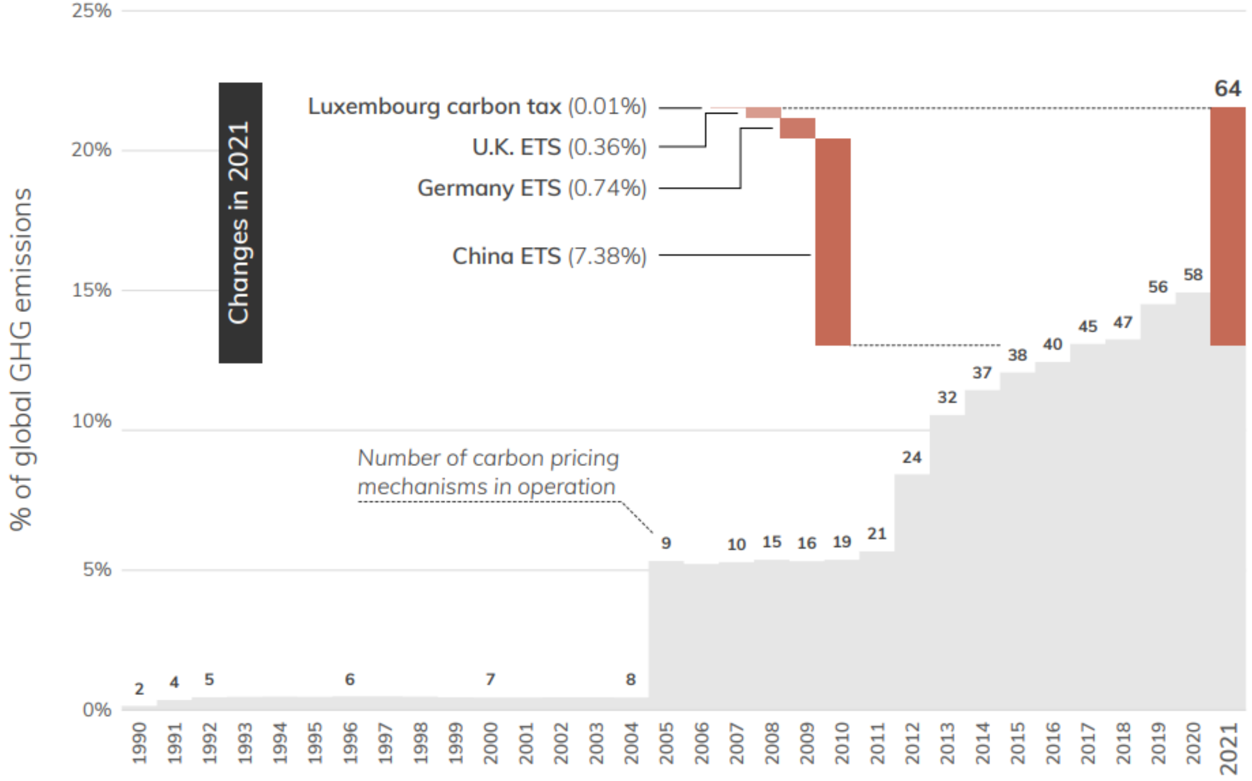
- Background
- Proposed Recording of Emission Trading Schemes (ETS)
- Decision of the AEG (18 October)

# 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](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 was asked to examine the current set of recommendations and propose alternatives.
- The AEG considered five options (two main treatments) – Recording ETS as taxes on production or the sale of an asset (Permission to use the climate regulating services of the Atmosphere).
- The AEG recognized there are valid arguments for various recordings and agreed that **Option 4. Emissions Permits recorded as Financial Assets with taxes on production recorded at surrender** is the preferred option**.**

# Emissions Permits recorded as Financial Assets with taxes on production recorded at surrender

- The financial asset approach considers the issuance of permits as the purchase of a financial asset – a security type loan where the payment grants the acquirer with the right to emit a pre-specified quantity of GHG emissions sometime in the future.
- At the offering stage, there is no impact on government net lending / net borrowing or tax revenues. It’s a standard financial transaction between the government and the purchaser of the permit – similar to other government securities.
- Thereafter, the value of the emission permit (financial asset) may rise or fall in line with market conditions for emission permits. The change in the market value of these emission permits will impact the general government’s gross and net debt liabilities.
- When the purchaser surrenders the permit, it is recorded as taxes on production. The surrender of the permit could be either **the issuance value** at time of auction or the **prevailing market value**.
  - As a result, there are two variants that could be considered. The AEG did not have a strong preference.
- The drafting team was asked to update the GN providing more detailed guidance on valuation of the tax flow (market value vs issuing value), treatment of multi-territory schemes, purchases by non-profit institutions who will never surrender the permit and permits issued with zero value.

# BOPCOM is invited to

- Comment on the AEG's preferred **Option 4: Emissions Permits recorded as Financial Assets with taxes on production recorded at surrender** and implications relating to:
  - ▶ Valuation -  at time of issuance vs at time of surrender
  - ▶ Treatment of multi-territorial schemes.
- Provide written comments on Option 4 from a Balance of Payments perspective.

# Thank you