

Types of assets and the treatment of emission permits

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Background for this presentation

Question raised at 14th London Group meeting:

The reason for the SNA 2008 tax treatment of permits is that the atmosphere is not an (SNA) asset.

If we then say that the atmosphere is an (SEEA) asset, is it then consistent to treat permits as taxes?



Overview

- The asset concept:
What kind of assets are we talking about
 - SNA 2008
 - SEEA 2003

- Recording options for emission permits
 - SNA 2008
 - SEEA



Assets in SNA 2008 - 1

“An asset is a store of value representing a **benefit** or series of benefits accruing to the economic owner by holding or using the entity over a period of time..” (SNA 2008 3.30).

“The coverage of assets is limited to those assets used in economic activity and that are **subject to ownership rights..**” (SNA 2008 3.46)

Assets in SNA 2008 - 2

... many environmental assets are included within the SNA

However:

Resources such as **the atmosphere** or high seas, over which no ownership rights can be exercised or mineral or fuel deposits that have not been discovered or that are unworkable, **are not included** as they are not capable of bringing any benefits to their owners, given the technology and relative prices existing at the time.”
(SNA 2008, 1.46)

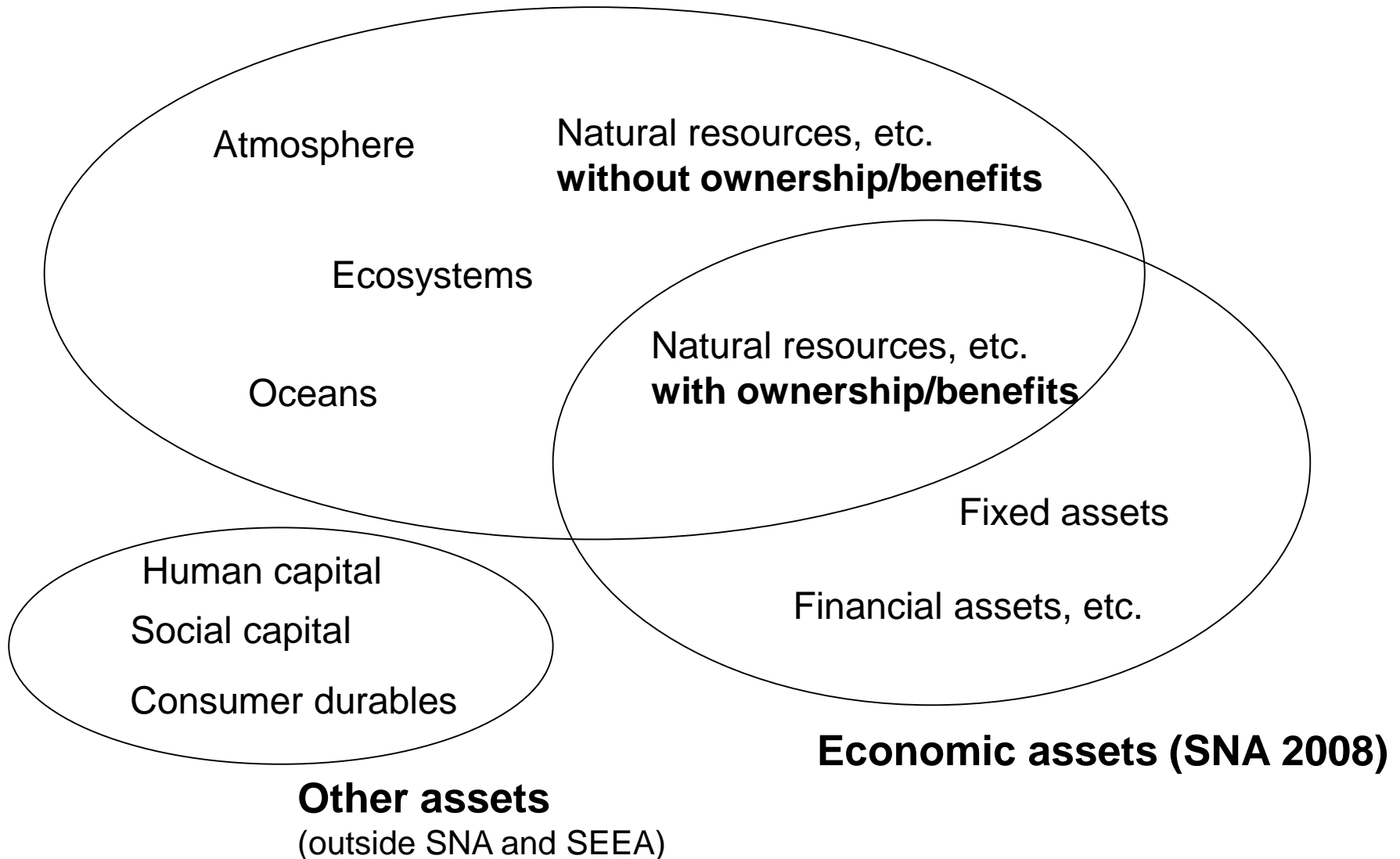


Assets in SEEA 2003

- Much broader view on assets, although no clear definition
- Asset boundary of the SNA is expanded to cover *“all environmental entities which are of interest and measurable”* (SEEA 2003, 2.52)
- Two groups of assets in SEEA 2003: Economic assets and environmental assets.



Environmental assets (SEEA 2003)



Ownership – non-ownership

The distinction between SNA and non-SNA assets seems useful to maintain. They have quite different characteristics.

They need not to be treated exactly the same way in the accounts. (But can, if appropriate.)

However: A terminology problem

It seems inappropriate to indicate that all of the non-SNA assets included in SEEA are of a non-economic nature, since many of them, if not all, play an important or indispensable role in the economy. I.e. "environmental assets" vs. "economic assets" gives wrong signal.

Therefore new SEEA terminology suggested:

for instance: *Market assets* (SNA) and *non-market assets* (within SEEA, but outside SNA)

The recording of emission permits – SNA 2008

- The atmosphere is not an asset (not owned by anyone). Therefore, payments to the government for the emission permits cannot be seen as a sale of an asset or a rent payment to the owner.
- Instead it is recorded as tax payments.
- Parallel to CO2 taxes
- Should be recorded as pre-payments of taxes, and final payments of taxes when the permits are surrendered to the government (permits valid for more than one year).
- Complicated: JI, CDM, changes in market value: not all payment are taxes



The SNA 2008 treatment of emission permits *if* the atmosphere was recognised as an asset - 1

Three SNA options (cf. SNA 2008, 17.315):

- a) The payments for the emission permits are seen as the sale of part of the atmosphere.
-> acquisitions and disposals of a the atmosphere
- b) The payments for the emission permits are made for the allowance to use the atmosphere for **an extended period of time** in which the user controls the use of the specific part of the atmosphere.
-> Creation of an asset (contract, leases, licenses), distinct from the resource itself. The permit owner can sell this separate asset and gain an economic benefit.
- c) The payments for the emission permits allows the owner to use the atmosphere **from one year to the next**.
-> A rental situation. The payments are rent payments similar to e.g. land rent

The SNA 2008 treatment of emission permits *if* the atmosphere was recognised as an asset - 2

- Option a) sale of the atmosphere seems not to be appropriate
- Both
 - b) sale of separate asset (contract)
and
 - c) payments for renting the atmosphere

are possibilities. A choice has to be done based on the actual emission permit scheme and the criteria mentioned by SNA 2008

SNA criteria for choosing between option b) and c)

In favour of option c) (the rent payment) if :

- The contract (i.e. the permits) is of short-term duration, or renegotiable
- The contract is non-transferable (i.e. it cannot be traded). If, on the other hand, transferability exists, it is considered a strong condition to characterize the licensing act as the sale of third-party property rights.
- The contract contains detailed stipulations on how the lessee should make use of the asset.
- The contract includes conditions that give the lessor the unilateral right to terminate the lease without compensation,
- The contract requires payments over the duration of the contract, rather than a large upfront payment.

Otherwise, in favour of option b) (the separate asset, contracts, leases and licenses)



Options for SEEA recording of emission permits

1) The tax treatment

Consistent with SNA 2008

2) Sale of part of the atmosphere

New compared to both SEEA 2003 and SNA 2008

3) Sale of a separate asset (contract)

Consistent with the SNA 2003 treatment

4) Ressource rent treatment

New compared to both SEEA 2003 and SNA 2008

Choosing between the options

1) The tax treatment

Possible, if it is recognised that the atmosphere is not owned, although it is an asset

Consistent with the SNA 2008

2) Sale of part of the atmosphere

Hardly appropriate

3) Sale of a separate asset (contract, leases, licenses)

Possible. Look at the actual permit scheme and the SNA criteria

Consistent with the SNA 2003 treatment

4) Ressource rent treatment

Possible. Look at the actual permit scheme and the SNA criteria

New compared to both SEEA 2003 and SNA 2008

To consider with regard to the the rent option

- If the payments for permits are rent payments, are they still *economic instruments* used by the governments? If so, should rent payments more generally be included as economic instruments?
- If the payments for CO₂ permits are recorded as rent payments, then what about CO₂ taxes? Are they also rent payments?
- And if CO₂ taxes are rent payments, what about other environmental taxes?

