Emission Permits

Two papers:
1. Emission permits in the SEEA
2. JI & CDM (*with Cor Graveland and Sjoerd Schenau*)

Both papers were discussed at the 2nd OECD / Eurostat permit taskforce meeting in Luxembourg
Emission permits in SEEA

Starting point of the discussion

• Outcome LG meeting in Canberra: SEEA should follow SNA in any direction it goes;
• What to do with: In the SEEA there is an underlying asset being the atmosphere?
SNA decision on permits

Pollution 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 therefore classified as taxes even though the permitted activity is one of creating an externality” (§17.363).

OECD / Eurostat Task Force:
• When should a tax be recorded at what value?
• What kind of asset does the permit represent?
Asset boundaries

SNA boundary of economic assets based on economic ownership and direct benefits to the owner

SEEA uses a broader definition based on the notion of environmental benefits (SEEA boundary is less precise). The atmosphere is deliberately included (SEEA 2003).

→ In SEEA there is an underlying asset!
→ Implications for permits?
What should the treatment in SEEA be in the case of an underlying asset?

Considerations:

• An ETS permit does not give resource access for longer time periods (like mobile phone licence);
• A permit represents a (pre)payment for the use of a predefined quantity of a natural resource being the atmosphere (quite similar to the New Zealand annual catch entitlements);

Conclusion:

• A permit should be accounted for as property income to government
Accounting implications of a permit as resource rent

• When should a resource rent be recorded and at what value?
  → At moment of pollution, valued by the permit market price;

• What kind of asset does the permit represent?
  → A non-produced non-financial asset (resource lease headed under contracts, leases and licences)
(dis)Advantages of permit as resource rent

Pro’s:
• Represents economic reality of ETS as a way of assigning property rights;
• Simplicity (no split asset or financial asset complexities);
• JI and CDM allowances fit in quite nicely;
• No cash – accrual controversies (as with taxes);
(dis)Advantages of permit as resource rent

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Con:
• SEEA does not follow SNA (which seems a smart thing to do! ;-)
Joint Implementation (JI) & Clean Development Mechanism (CDM)

Additional means for so-called Annex 1 countries to achieve Kyoto emission targets by carrying out emission reduction projects in other (host) countries.

In case the host country is:
• Non Annex 1 countries → JI
• Other countries (without Kyoto targets) → CDM
How does JI-CDM work (1)?

- Participation in a foreign project (direct investment or purchase of allowances);
- Project leads to additional greenhouse emission reductions (compared to so-called baseline);
- Supervised by UNFCCC (via Designated National Authorities);
- Project generates emission permits over its entire lifetime;
- JI credits: Emission Reduction Units (transfer of existing emission permits);
- CDM credits: Certified Emission Reductions (are additional).
How does JI-CDM work (2)?

• Governments may participate in JI-CDM (Dutch government does so);
• CERs and ERUs are (almost) perfect substitutes with standard ETS permits;
• ETS permits (and ERUs) are issued (auctioned) by governments while CERs are issued directly by the UNFCCC executive Board (supranational body);
Accounting implications of JI-CDM

• Depend on treatment of ETS permits;
• ETS permits, CERs and ERUs are perfect substitutes and should therefore fall under the same asset category;
• The tax treatment seems not applicable to CER permits (these are neither issued by national governments nor auctioned);
• Also government participation in JI and CDM projects does not very well align with the idea of a permit as tax.