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**OECD-EUROSTAT TASK FORCE – EMISSION PERMITS IN THE NATIONAL
ACCOUNTS**

Paper prepared by OECD and Eurostat

(for information)

OECD-EUROSTAT TASK FORCE – EMISSION PERMITS IN THE NATIONAL ACCOUNTS

Action

1. The OECD and Eurostat have agreed to form a Task Force to investigate the treatment of emissions permits in the national accounts, under the auspices of the ISWGNA. The Task Force will be composed of experts from the following areas - national accounts, government statistics, balance of payments, environmental accounts, and policymakers for emissions trading schemes.

Background

2. Emission permits to discharge waste gases (principally carbon dioxide) into the atmosphere are a rapidly growing phenomenon around the world. Permits issued under an emission trading scheme (ETS) (or cap and trade scheme) are intended to limit emissions and be tradable either domestically or both domestically and internationally. Their treatment is addressed in paragraph 17.354 of the 2008 SNA¹, which recommends that payments for emission permits should be recorded as taxes, and once acquired, as assets of the permit holder, valued at their market price.

17.354 Governments are increasingly turning to the issuing of emission permits as a means of controlling total emissions. 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 tradable 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.

3. These recommendations leave a number of unanswered questions however, such as:
 - a. What type of asset is the ETS permit?
 - b. What transactions should be recorded when a permit is issued?
 - c. What transactions should be recorded when a permit is surrendered?
 - d. In which period(s) should transactions be recorded?
 - e. How should changes in the value of permits be treated?
 - f. How should permits that are issued free or at a cost lower than market price be treated?
 - g. How should international trade in permits be recorded?
 - h. Should all emission permit schemes be recorded in the same way?
4. The issue was recently discussed at the November 2008 AEG meeting described (see <http://unstats.un.org/unsd/nationalaccount/aeg.asp#aeg6>). In summary, the AEG:
 - a. Confirmed their earlier view that ETS permits issued under cap-and-trade schemes should be recorded as taxes.

¹ It should be recognised that countries apply the 1993 SNA at present. Nevertheless, if the 1993 SNA is not prescriptive on this matter, the guidance in the 2008 SNA might be drawn upon.

- b. Favoured treating payments for permits as pre-paid taxes, paid as emissions took place but noted the implications for the measurement of government debt.
 - c. Did not reach a recommendation on whether taxes and subsidies should be imputed when permits are issued without charge or at cost lower than the market price.
 - d. Was not able to reach a recommendation about how to record changes in the value of payments during their lives.
 - e. Was not able to reach recommendations for the treatment of other forms of emissions permits.
 - f. Agreed it would be useful to create a task force (including those responsible for Government Revenue Statistics, BPM6, environmental accounting, a Eurostat task force on the subject).
5. The issue was also raised at a recent (January 2009) Eurostat Financial Accounts Working Group meeting, where papers were presented from Eurostat, the UK, Denmark and France
 6. ETS permits are (or shortly will be) sold in a number of countries and regions. A number of countries have already begun to formulate recommendations and although there appears to be broad convergence on the main issues, some differences are already beginning to appear in the preferred statistical recording. Moreover other bodies such as the London Group are also investigating the issue. Therefore there is a pressing need for international guidance.

Task force proposal

7. Recognising these needs, the ISWGNA has agreed to act as the umbrella body for an OECD-Eurostat Task Force, whose remit will be to develop comprehensive guidelines for the treatment of ETS and similar types of emission permits related to the use of the environment as a sink function (air, water, etc). It will not cover the general treatment of government permits, however a clear explanation will be needed about the consistency of recording, and links drawn to other forms of licences and permits issued by government, such as those related to the use of natural resources (water, timber, fish etc).

Terms of reference

8. To:
 - I. Investigate the nature of all relevant aspects of emission permits granted under an ETS and any similar types of emission permits.
 - II. Develop comprehensive guidelines for recording the associated flows and stocks of emission permits (cap and trade schemes and related mechanisms, such as Joint Implementation and Clean Development Mechanisms) in the national accounts, consistent with the principles embodied in the SNA, the Balance of Payments manual and Government Finance Statistics and in the System of Environmental and Economic Accounting (SEEA).

- III. Consider existing recommendations on the treatment of other licences and permits and justify any apparent divergence from them.
- IV. Collaborate with any other task force or working group addressing these issues, including the UN Committee of Experts on Environmental Economic Accounting (UNCEEA).

Membership

- 9. The OECD and Eurostat will lead the Task Force, working under the auspices of the ISWGNA. As well as national experts, membership will need to include international bodies responsible for relevant standards (GFS, BPM, government revenue statistics, SEEA, etc.), and at least one representative of an agency responsible for administering an ETS. The number of Task Force members may need to be limited to maintain efficiency.

Time frame

There is little time to lose, and so the Task Force should develop recommendations by the end of 2009, to be presented to the ISWGNA. The OECD will organize and host a first meeting in Paris, with a more definitive date to be set as soon as possible, once Task Force members have been nominated and identified. Eurostat will organise a second meeting in Luxembourg in the autumn of 2009. The OECD and Eurostat will develop a detailed "Issues paper" for the first meeting, describing the different proposals currently formulated by some countries and the impact of these treatments on the national accounts.