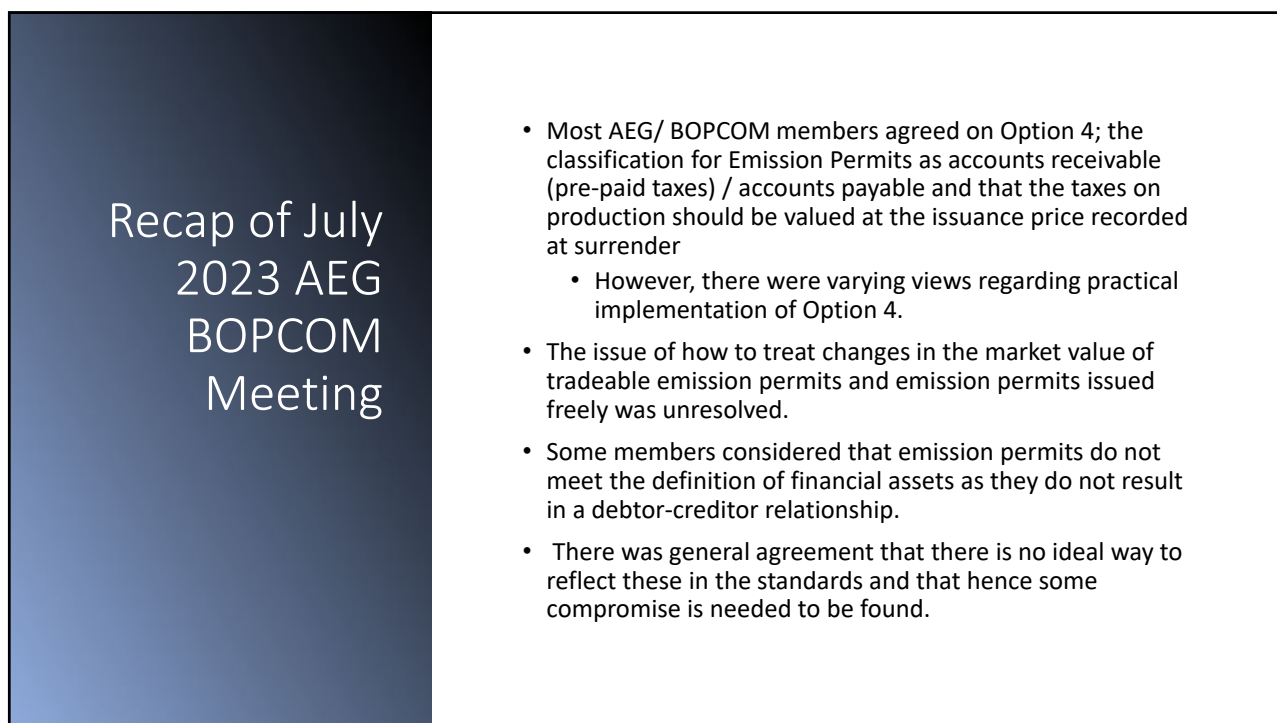




Outcome of the AEG and BOPCOM consultation on emission permits

Presentation to the Advisory Expert Group on National Accounts at their 16-18 October 2023 meeting in Paris, France, and the IMF's Committee on Balance of Payments Statistics at their 24-26 October 2023 meeting in Bali, Indonesia

1



Recap of July 2023 AEG BOPCOM Meeting

- Most AEG/ BOPCOM members agreed on Option 4; the classification for Emission Permits as accounts receivable (pre-paid taxes) / accounts payable and that the taxes on production should be valued at the issuance price recorded at surrender
 - However, there were varying views regarding practical implementation of Option 4.
- The issue of how to treat changes in the market value of tradeable emission permits and emission permits issued freely was unresolved.
- Some members considered that emission permits do not meet the definition of financial assets as they do not result in a debtor-creditor relationship.
- There was general agreement that there is no ideal way to reflect these in the standards and that hence some compromise is needed to be found.

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Recap of July 2023 AEG BOPCOM Meeting Actions

- The BPM/SNA editorial teams (in consultation with the GN drafting team) prepared a note elaborating on the merits, recording and practical implications of Option 4 and circulated it to the AEG and BOPCOM for written consultation and final approval by the end of August 2023.
- A workshop will be organized to discuss implementation issues and provide practical guidance, after which its outcomes will be reported to the AEG and BOPCOM.
- It is important that in communication about the topic that there is sufficient justification, visibility and consistency for the recommended approach.

3

SHORT NOTE on the measurement of emission permits

- As requested by the AEG/BOPCOM meeting, a short note on the measurement of emission permits was prepared by the Editorial Teams of the updates of BPM6 and the 2008 SNA, with the support of David Bailey, Emmanuel Manolikakis, and Pete Harper.
 - This note was circulated to AEG and BOPCOM members on 15 August, with a request for comments by 1 September
- The note examined option 4(a), as well as an alternative option 4(a)*. Under option 4(a), transactions in emission permits at market prices are immediately revalued back to their issuance price in the revaluation account. Under option 4(a)*, a new non-produced non-financial asset is created when the transaction price differs from the issuance price via the other changes in volume account. This asset is extinguished upon surrender at the emission permit, also via the other changes in volume account.
 - The note concluded that both options are likely to have difficulties in practical implementation (particularly where international transactions are concerned), but considered option 4(a)* to be conceptually superior.
 - The note also suggested that option 1 (recording of non-produced non-financial assets) could be easier to implement in practice, but that measuring international transactions could still be challenging.

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Feedback received from AEG and BOPCOM

- ECB (BOPCOM/AEG) – Noted that option 4(a)* is the existing interim solution, which is considered problematic. The drawbacks with option 4 should be fully explained before the AEG and BOPCOM is asked to confirm 4(a), or to move back to 4(a)*. Also, suggested that the possibility to treat the permits as tradable instruments rather than other assets/liabilities, still with the surrender transaction valued at inception value, be put forward as an option to be examined in the workshop.
- Eurostat (BOPCOM/AEG) – Prefers option 4(a). Supportive of workshop to work through practical issues. Raised the question on whether a decision between option 4(a) and 4(a)* needs to be taken before the workshop.
- Canada (BOPCOM) – Supportive of workshop.
- China (BOPCOM) – Support option 4(a)*. Understand implementation will be a challenge. Welcome a workshop to thoroughly discuss the practical issues.
- Germany (BOPCOM) – Intended treatment raises conceptual and practical issues and welcomes a workshop to work through these.

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Feedback received from AEG and BOPCOM (continued)

- Japan – BOJ (BOPCOM) – suggests that as a practical solution traded emission permits be recorded as financial assets at market value. (Note – this would create an asymmetry with the treatment in the issuing government’s accounts.)
- Japan – MOF (BOPCOM) – Raised practical concerns with recording of an emission permit at issuance price in the books of the holder after a permit has been traded.
- Morocco (BOPCOM) – Very supportive of workshop.
- Thailand (BOPCOM) – Raised conceptual and practical concerns about treating emission permits as financial assets.
- UK (BOPCOM) – Supportive of option 4(a)* and the workshop.
- US (BOPCOM) – Supportive of option 4(a)*.
- BIS (BOPCOM) – Supportive of option 4(a)*, as it is conceptually sound if more complex.
- Canada (AEG) -- Supportive of the workshop, also already doing some research in data availability, Expressed a strong support for option 1, and emphasized the need to let practical considerations play a bigger role in the choice of recording.

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The proposed way forward

- The SNA and BPM editorial teams consider that, based on the comments received, the treatment of emission permits cannot be finalised until after the proposed workshop has had the opportunity to consider the practical implications associated with the recording on emission permits in macroeconomic statistics.
 - A workshop with participation from both national accounts and BOP compilers will enable a full discussion of the issues through a purposeful dialogue on the advantages and disadvantages of the various approaches.
 - The IMF has volunteered to organise the workshop, which will likely take place in early December 2023.
 - An initial list of possible countries and international institutions to be involved in the workshop has been prepared and the relevant organizations will shortly be approached.

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The proposed way forward (continued)

- The workshop will explore the practical considerations of options 4(a) and 4(a)*
 - Issues of international trade in emission permits and the treatment of multi-country schemes will have particular focus.
 - If neither 4(a) or 4(a)* are considered practically feasible the workshop will consider alternatives with the view of identifying a solution that strikes a balance between conceptual desires and the practicality of implementation.
- The recommendations from the workshop will be brought back to the AEG and BOPCOM for their consideration.
 - These recommendations will most likely be discussed at a meeting of the two groups in early 2024.

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