Senate Standing Committee on Economics

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Supplementary Budget Estimates

17 October – 18 October 2012

Question: SBT 80

Topic: Emissions Trading Schemes

Written: Received from Committee – 26 October 2012

Senator MILNE asked:

80. The ABS announced on 30 July that you would be valuing permits under emissions trading schemes at market prices rather than historical cost and in so doing you would be deviating from international standards. Can you describe the reason for the international practice, which seems odd if it means firms receiving free permits value them at zero, and the impact your treatment will have on key economic statistics?

Answer:

There has been substantial international agreement about the statistical treatment of components of emissions trading schemes, with the exception of valuation and timing. The UN Statistical Commission endorsed an international standard based on a report by the Advisory Expert Group to the Intersecretariat Working Group on National Accounts. This report states explicitly the considerations underlying the agreed treatment as follows (the ABS treatment is referred to in this as "the financial asset approach"):

"It was explicitly formulated, because, at present, most permits issued by government are provided for free and may gain significantly in value when subsequently traded in the market. In case of the financial asset approach, this treatment may lead to significant different amounts of taxes paid to government than cash received when the permit is surrendered and potentially a material impact on the deficit and debt position of government. The alternative approach ensures that cash received and taxes recorded are equal."

The equality of cash received and taxes paid is not in accordance with the UN System of National Accounts (SNA), which requires transactions to be recorded at market value on an accrual basis. The impact on government debt is not a statistical consideration. Effectively, the endorsed treatment is based on political considerations, not statistical or SNA accounting principles.

The ABS believes that the UN decision was heavily influenced by members concerned that measurement in accordance with SNA principles would create potential difficulties for, for example, countries which have treaty obligations on the level of government debt and which are very sensitive to perceptions around levels of taxation.

The ABS considers that the endorsed treatment will distort the impact of these schemes on both government and business statistics, particularly as represented in the national accounts, but also in other bodies of economic and environmental statistics. The schemes aim to affect the behaviour of market participants. Eliminating the market value changes, accrued liabilities and tax payable, which is the intent of the agreed treatment, undermines this aim.

The ABS has decided to apply fundamental SNA market valuation and accrual accounting principles in ABS statistics. This is consistent with the principle and practice of the SNA. It is at variance with the 2012 decision of the UN Statistical Commission which effectively recommends historic valuation and cash accounting for key stocks and flows.

Main economic indicators such as GDP will not be impacted by this statistical treatment. There will be an impact on tax and debt statistics and this will be dependent on the market value of permits and the number of free permits issued. The ABS believes the measurement methods proposed will provide accurate and coherent information about emissions permits for both governments and businesses.