Purchasing and trading strategies for emission units

The Council will have obligations to surrender emission units in respect of its landfill operations and any net emissions arising from its forestry activities covered by the NZETS. The Council will also have the opportunity to sell units from its relevant forestry activities.

The Council will develop an appropriate level of expertise, and take expert advice as required, on the acquisition and sale of emission units, including addressing the following key issues:

- ensuring that acquired emission units meet the requirements of the NZETS
- undertaking due diligence on contracting partners, particularly where contracts involve the supply of units in future
- long-term versus spot market purchasing strategies
- managing the Council's overall net position with respect to emission unit assets and liabilities
- cooperating with other purchasers to take advantage of synergies and economies of scale
- minimising costs to Council while ensuring appropriate risk management
- managing accounting and taxation issues, as appropriate.

The Council may also consider options to acquire emission units by way of investing in post-1989 forest activities in addition to land under its direct control. Consideration of such options will require careful evaluation for risk and value for money.

The Council will give priority to purchasing emission units from local sources, where the generation of those units is consistent with the Council's wider policy objectives (such as establishing indigenous forest on private land). Any such purchases, however, will not be at a price that is significantly above market rates for units.

Financial reporting of carbon-related assets and liabilities

There is currently no International Financial Reporting Standard relating specifically to carbon-related assets and liabilities.

In December 2004 the International Accounting Standards Board (IASB) released IFRIC 3 – Emission Rights which specified the accounting for companies participating in government schemes aimed at reducing greenhouse gas emissions. This interpretation was subsequently withdrawn in June 2005. Since then there has been no specific guidance relating to emissions and entities have to apply the current accounting standards to develop an accounting policy for the recognition and measurement of assets and liabilities relating to emission units. The IASB is not expected to release a new draft standard until 2012.

The Council complies with existing New Zealand Generally Accepted Accounting Practice but notes that the current treatment of carbon-related assets and liabilities may change if new guidance is released.

If emission units are held to meet compliance requirements (that is, to surrender to meet an entity's liability relating to emissions) they meet the definition of intangible assets under NZ IAS 38 – Intangible Assets and are treated in line with the requirements of this standard. Granted allowances are recognised initially at fair value which is deemed to be the market price on the date of allocation. Purchased allowances are recognised initially at cost.

Any carbon-related liabilities are recognised when all of the following three conditions can be satisfied:

- There is a present obligation as a result of a past event
- There is a probable outflow of economic benefits
- The amount can be estimated reliably.

Where the Council already holds units to offset its liabilities then the unit price used to determine the value of the liability is the same as the carrying value of the asset. Any liabilities over and above this are recognised at fair value (market price) at the date of recognition of the liability and re-measured at the end of each reporting period.

Explicit information on carbon-related assets and liabilities will be reported in the Council's Annual Report. The nature of the information reported may change if and when new accounting standards are released.