Accounting disclosure regarding EU-ETS emissions permits

A. J. Stagliano
Erivan K. Haub School of Business
Saint Joseph's University, USA

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Abstract

Policy makers, scientists, industry leaders, and academicians all have debated how to restrain global warming and reduce greenhouse gas (GHG) emissions. Three main methods are used to do this: command and control laws/regulations, carbon taxes, and cap and trade schemes.

Recognizing the consequences of global warming, all the Scandinavian countries introduced a carbon tax in the 1990s. They also ratified the Kyoto Protocol that ran from 2005 through 2012. The European Union (EU) instituted a carbon trading scheme (its Emissions Trading System, or ETS) in February 2005 when Kyoto became operative. The three Scandinavian EU members had two methods in place during the 2005-08 period to encourage GHG reduction: taxing and trading. Norway, not in the EU, used just taxes. The other EU members—including Spain—applied the carbon trading scheme to encourage compliance with the Kyoto Protocol.

The fundamental issue addressed here is this one: Did publicly held firms headquartered in Spain adequately report their participation in the EU carbon emissions trading mechanism?

Data to answer this question were obtained from 2011 and 2012 annual reports of domestic Spanish public companies that received tradable emissions permits. Along with assessing investor-owned firms' disclosure posture, the method of reporting on these carbon emissions permits—whether companies used, banked, or sold the permits granted—also is reviewed in the analysis. This empirical research effort reports on a complete survey of all available data for the two reporting period sat the end of the second phase of the Kyoto Protocol.