

McGuinness Institute Press Release

Exposing ‘risks hiding in plain sight’ – accounting for offshore carbon credits
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Independent Wellington think tank, the McGuinness Institute, has today published a discussion paper on how New Zealand’s commitment to purchase offshore carbon credits under the Paris Agreement should appear in the financial statements of the New Zealand Government.

Accounting for climate risk is a complex and emerging area of financial reporting. Under the Paris Agreement in 2016, the Government agreed to purchase offshore carbon credits to cover any shortfall in emissions for the ten-year period 2021–2030. However, this commitment is not currently reported in the financial statements.

‘Initially, the New Zealand Government thought it could simply reduce domestic emissions,’ says Wendy McGuinness, Chief Executive of the McGuinness Institute. ‘However, as we get closer to 2030, Plan B (the purchase of carbon credits) is becoming more certain and more significant. The Paris Agreement was designed to create an incentive for countries to pursue policies for a cooler climate, and we agreed to cover any shortfall by purchasing offshore carbon credits.’

The McGuinness Institute has just published a discussion paper, *Risks hiding in plain sight: Does a commitment under the Paris Agreement to purchase offshore carbon credits create a requirement to report that commitment in the financial statements of the New Zealand Government?*

Wendy McGuinness and Institute patron Lay Wee Ng applied accounting standards to the commitment and found that it was not only possible but appropriate to report it as a liability and/or contingent liability.

Ng says, ‘The commitment may not be a legal obligation, but it is a constructive obligation. As with many areas in accounting, determining how to report the commitment requires judgement. Our analysis shows that it was not only possible, but appropriate, to report the commitment as a liability and/or contingent liability.’

McGuinness explains, ‘A constructive obligation is like a handshake. If you publicly say you will do something, and you recommit to doing that same thing over many years, you effectively create an expectation that you will follow through.’

Financial statements need to provide useful information. Reporting the commitment as a liability and/or contingent liability is the right thing to do to highlight the risks. It better alerts taxpayers, ratepayers, citizens and the public to the costs of meeting this commitment. This enables timely and appropriate action to be taken by the Government, by public entities, by businesses and by individuals to help mitigate and reduce the costs of meeting the commitment.

McGuinness says, ‘Accounting for this commitment in the financial statements will bring forward the discussion about whether to be proactive and invest in our own country to mitigate emissions, or be passive and write a large cheque in 2030 to offshore parties for carbon credits of potentially dubious quality. To manage a business well you need timely and accurate information. To manage a country well, the same rules apply.’

‘Accounting for the shortfall in the financial statements brings many concrete benefits:

- enabling the public to measure progress in a regular and verifiable way
- creating urgency, highlighting how business and government might better work together to reduce domestic emissions
- preventing an economic shock in 2030. The estimated amount of the liability and/or contingent liability may be as much as \$24 billion.’

Victoria University Adjunct Professor of Accounting and Commercial Law Ian Ball has provided technical advice on the paper, which he says is ‘an excellent contribution to a very important area of debate and policy. It is also a great illustration of the role of financial information in the development of a rational response to a major issue facing society, now and for a considerable period into the future.’

About the Paris Agreement

See link to the Paris Agreement [here](#).

About the McGuinness Institute

The McGuinness Institute is a non-partisan think tank working towards a sustainable future for New Zealand. The Institute applies hindsight, insight and foresight to explore major challenges and opportunities facing New Zealand over the long term. We are committed to positively influencing public policy by empowering New Zealanders to have the uncomfortable, but necessary, conversations that are required to enable New Zealand to realise its potential.

For more information, or a copy of *Risks hiding in plain sight*, please contact Wendy McGuinness at wmcg@mcguinnessinstitute.org or phone 04 499 8888.

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