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STATISTICS DIVISION
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System of
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SEEA Central Framework 2028 update

Draft Scoping note for issue C6: "Inclusion of potentially environmentally damaging subsidies/related transfers (in the SEEA Central Framework)"

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Note: This note is prepared in the context of the SEEA Central Framework update, mandated by the United Nations Statistical Commission in 2024, expected to finish by 2028. There are 29 update issues, and the initial task is establishing a clear scope for all of the issues. This scoping note provides a short description of a specific issue with the aim of supporting a common understanding of the work that will be needed to fully investigate and articulate the alternative approaches and recommendations for change or addition to the SEEA Central Framework. Scoping notes will be discussed by the relevant task team and inform on the further work related to the issue.

1 Background to the issue

Currently, the SEEA CF 2012 includes a paragraph on PEDS (Potentially Environmentally Damaging Subsidies) but does not provide a definition.

“Potentially environmentally damaging subsidies

4.147 The definition of environmental subsidies and similar transfers focuses on the government’s intention rather than on the effect on the environment arising from the use of the resources provided. Another perspective that may be taken is whether the size and structure of payments from governments are environmentally beneficial or environmentally damaging. A measure reflecting this perspective is the potentially environmentally damaging subsidy (PEDS), encompassing subsidies and similar transfers that support activities that are considered environmentally damaging. In some definitions, this measure also includes so-called implicit (or indirect) subsidies, such as preferential tax rates. A definition of PEDS is not included in the SEEA.” (SEEA CF; 2012; 4.147)

In light of that situation, the Issue C6 “Inclusion of PEDS and related transfers in the SEEA Central Framework” has been included in the SEEA CF update process with the following short description from October 2024:

“Potentially environmentally damaging subsidies (PEDS) such as fossil fuel subsidies are not described in SEEA CF, as they are currently out of scope. However, accounting practices and SNA terminology can be used to record these flows in the SEEA, as there is a clear policy interest in these transfers. There is also good data on PEDS from countries and international organizations such as IEA, OECD and IMF.”

2 Motivation for considering a change to the SEEA Central Framework

From the perspective of the SEEA CF, subsidies can influence consumption decisions and economic activities, just as taxes do. Both subsidies and taxes can have significant impacts on the environment. Currently, the SEEA CF accounts only for subsidies and similar transfers aimed at promoting economic activities intended to improve environmental outcomes, as reflected in the ESST account as well as for environmental taxes (ESEA). While this perspective is important in linking the economy and environment through policy instruments, it remains incomplete.

Taxes, tax relief and actual subsidies and transfer payments are economic and socio-political measures that are very closely interrelated. But not only that. The treatment of certain positions as net items (i.e. the netting of certain flows) or as gross items gives a completely different picture. For intertemporal and international comparability, it is therefore necessary to include all relevant transfers in a system of accounts in such a way that the required indicators can be obtained from them in a directionally reliable manner. Such a complete accounting framework is also necessary to reliably enable cross-country comparisons and enhance transparency regarding the environmental effects of policy measures. In addition to environmentally beneficial subsidies and transfers and environmentally related taxes, it is therefore essential to include potentially environmentally damaging subsidies and transfers in a way that is compatible with this information. Harmonised indicators can only be derived from such a complete accounting system.

This is a key prerequisite, to satisfy the urgent need for a clear and communicable measurement of PEDS to support well-informed policy decisions by providing an account that strengthens the link between policy and the SEEA CF (Issue A6). To achieve this, it is essential to establish a common, consistent concept

for the inclusion of potentially environmentally damaging subsidies and related transfers into the accounting framework together with environmentally beneficial subsidies and transfers and environmentally related taxes. Without this integration, meaningful international and cross-indicator comparisons would not be possible.

3 Nature of the proposed change and research questions

The objective is to supply the missing definition of PEDS, clarify their interaction and linkages with other accounts, and differentiate between various forms of subsidies and transfers within the PEDS definition. Additionally, it is important to specify when and to whom these subsidies and transfers should be accounted for.

The research questions are therefore:

- a) What exactly are PEDS?
- b) It seems unlikely that PEDS can be assessed using the same intention- or purpose-based approach as ESST. Would a different criterion—such as effect, which is already applied to environmental taxes—be more appropriate?
- c) What is environmentally damaging?
Could a list approach be a solution for identifying PEDS activities and products in an international comparable way? And Could the ETEA Table 1 from the Eurostat ETEA Guidelines (doi: 10.2785/730717) be a starting point for such a list?
- d) For what does the “potential” stand in PEDS?
- e) How do PEDS relate to environmental taxes?
- f) How do PEDS interacts with "Environmental Subsidies and Similar Transfers"?
- h) How should PEDS be accounted for?
- h) When should PEDS be accounted for?
- i) Could a classification improve the communication of PEDS? And could the classification of ETEA be a starting point for a PEDS classification?

4 Links to other SEEA CF update issues

In taking forward work on PEDS, links should be made to the following SEEA CF update issues:

- a) Issue A6 – Introduction of thematic accounts and strengthening the link to policy: PEDS classify subsidies as "potentially environmentally damaging", which allows to assess the potential influence of policies. By categorizing these transfers, PEDS provide a framework for monitoring policies and facilitating communication about their potential environmental effects. This strengthens the connection between policy objectives and environmental outcomes.
- b) Issue C1 – Inclusion of the Classification of Environmental Purposes (revised CEA): The accounting and communication of PEDS could be enhanced by introducing a classification similar to the Classification of Environmental Purposes (CEP) or the classification already used by ETEA. This would provide a clearer framework for understanding the relationship between the environment and PEDS.

- c) Issue C3 – Extending the scope of environmental activities: Since the PEDS definition classifies subsidies and similar transfers with potentially damaging effects on the environment, the PEDS concept should align with other definitions of environmental activities. This would ensure consistency across different concepts.
- d) Issue C7 – Elaborating environmental tax abatements: Although tax abatements are treated as a separate issue in the SEEA framework, the underlying classification concept can still be applied to them. This is important because, regardless of their potential positive or negative environmental impacts, those with adverse environmental effects should be analyzed using the PEDS concept. Even if tax abatements do not meet the definition of subsidies under the SNA, they can influence economic activity and consumption behavior in ways similar to explicit subsidies. Therefore, they should be accounted for using the same conceptual approach as explicit PEDS.

5 Existing materials

BIOFIN – The Nature of Subsidies: A step-by-step guide to repurpose subsidies harmful to biodiversity and improve their impacts on people and nature

(<https://www.biofin.org/knowledge-product/nature-subsidies-step-step-guide-repurpose-subsidies-harmful-biodiversity-and>)

Eurostat – Guidance material for the Eurostat PEDS compilation

(<https://ec.europa.eu/eurostat/documents/1798247/6191541/Guidance+material+for+PEDS+compilation.pdf/f0f177d5-5bcd-0902-54e1-e39b7ce4d132?t=1671143474732>)

Eurostat – Potentially environmentally harmful subsidies – definitions and approaches for measurement

(https://seea.un.org/sites/seea.un.org/files/harmful_subsidies_definitions_and_approaches_for_measurement_0.pdf)

IMF – Fossil Fuel Subsidies

(<https://www.imf.org/en/Topics/climate-change/energy-subsidies>)

OECD – Identifying and assessing subsidies and other incentives harmful to biodiversity: A comparative review of existing national-level assessments and insights for good practice

(https://www.oecd.org/content/dam/oecd/en/publications/reports/2022/11/identifying-and-assessing-subsidies-and-other-incentives-harmful-to-biodiversity_02760154/3e9118d3-en.pdf)

OECD – Environmentally Harmful Subsidies

(https://www.oecd.org/content/dam/oecd/en/publications/reports/2005/08/environmentally-harmful-subsidies_g1gh5bb7/9789264012059-en.pdf)

World Bank – EHS in the Energy Sector

(<https://www.worldbank.org/en/results/2020/11/12/energy-subsidy-reform-facility-generates-knowledge-to-support-governments-to-design-and-implement-sustainable-energy-subsidy-reforms-while-safeguarding-the-welfare-of-the-poor>)