LG/15/16/1

**15th Meeting of the London Group on**
**Environmental Accounting**
**Wiesbaden, 30 November – 4 December 2009**

# SEEA transfers related to the environment – environmentally motivated transfers

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2009-11-24

EUROPEAN COMMISSION
EUROSTAT

Directorate E: Agriculture and environment statistics; Statistical cooperation
**Unit E3: Environmental statistics and accounts**

# Revision of SEEA 2003

# Outcome paper: SEEA transfers related to the environment. Environmentally motivated transfers.

– Document to the London Group meeting in autumn 2009

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# 1 Introduction

This paper has the purpose to present a SEEA definition for environmentally related transfers and for the underlying category of environmentally motivated transfers. The main issues are what transfers to include and how to define the parts of transfers that are presented by governments as environmental policies, the environmentally motivated transfers.

This outcome paper presents environmentally related transfers which are mentioned in chapter 5 *Accounting for economic activities and products related to the environment* and chapter 6 *Accounting for other environmental related transactions* of the SEEA 2003. Transfers are mentioned mainly in chapters 5 and 6 of the SEEA 2003 (such as in chapter 5.54 on forest management, chapter 5 in relation to environmental protection expenditure accounts, chapter 6 in a fiscal type of accounts (§6.33) and in relation to income/capital accounts in section E of chapter 6).

An earlier issue paper has discussed some definitions that can be used when revising these chapters, and related country experiences. Since that issue paper was discussed at the London Group meeting in Brussels, a Eurostat reflection group has been formed where several issues have been further investigated. A Task Force is now planned where the methods will be tested. The work on finalizing methods for the potentially environmentally damaging transfer will be continued in the Task Force but will not be dealt with in this outcome paper. It is our intention to continue the work and hopefully to be able to bring also that part to an outcome paper later in the process.

The need for providing an internationally comparable data set, regardless if it is transfers that are environmentally motivated (EM) or potentially environmentally damaging (PED), is very apparent. There is a need to standardize definitions that can open up for a statistical approach, leading to time series that are comparable between nations.

The major shortcoming today is the lack of internationally comparable and available data on the transfers that are driving forces for the environmental problems. The issue on subsidies is a topic that is discussed in many international organisations. The lack of common definitions and information hampers negotiations and analyses in the field. This is an area where the SEEA is particularly well suited to bring forward some reliable definitions and comparable data.

As is shown below, the SNA covers many of the mechanisms that are of interest. With the extra data available in the SEEA, some of the indirect transfers can also be assessed. As a new and possible interesting feature in the environmentally related subsidy discussion, the separation between current transfers and capital transfers can also be made.

# 2. Definitions

## *2.1 Current definitions on subsidies and other transfers*

The SNA cover the direct transfers to industries, to public authorities and to households. However, only the transfers to industry are labelled subsidies in the SNA. The meaning of a subsidy in the SNA is very specific, as defined below. In order to get closer to what the users of environmentally related subsidy data would want, it is necessary to create a SEEA-transfer combining this information with other parts of the SNA, notably with capital transfers and transfers to households and public authorities.

In the SNA 93[1] subsidies are included in the primary distribution of income accounts (chapter 7, section D3). The income account consists of two accounts: the generation of income account and the allocation of primary income account. The primary allocation of income account show how primary incomes are distributed among institutional units and sectors. This account includes compensation of employees, taxes on production and on imports, subsidies, operating surplus or mixed income, and property income.

2.1.2 SNA definition

When it comes to defining what a **subsidy** is, the SNA1993 states in section D.3:

§7.71 *Subsidies are current unrequited payments that government units, including non-resident government units, make* ***to enterprises*** *on the basis of the levels of their production activities or the quantities or values of the goods or services which they produce, sell or import. They are receivable by resident producers or importers. In the case of resident producers they may be designed to influence their levels of production, the prices at which their outputs are sold or the remuneration of the institutional units engaged in production.*

*§7.72. Subsidies are not payable to final consumers, and* ***current transfers that governments make directly to households as consumers are treated as social benefits****. Subsidies also* ***do not include grants*** *that governments may make to enterprises in order to finance their capital formation, or compensate them for damage to their capital assets, such grants being treated as capital transfers*

*(…)*

*§7.78 Other subsidies on products.*

*Other subsidies on products consist of subsidies on goods or services produced as the outputs of resident enterprises that become payable as a result of the production, sale, transfer, leasing or delivery of those goods or services, or as a result of their use for own consumption or own capital formation. The most common types are the following:*

*(a) Subsidies on products used domestically: these consist of subsidies payable to resident enterprises in respect of their outputs which are used or consumed within the economic territory;*

*(b)* ***Losses of government trading organizations****: these consist of the losses incurred by government trading organizations whose function is to buy and sell the products of resident enterprises. When such organizations incur losses as a matter of deliberate government economic or social policy by selling at lower prices than those at which they purchased the goods,* ***the difference between the purchase and the selling prices should be treated as a subsidy****. Entries to the inventories of goods held by such organizations are valued at the purchasers' prices paid by the trading organizations and the subsidies recorded at the time the goods are sold;*

*(c) Subsidies to public corporations and quasi-corporations: these consist of regular* ***transfers paid to public corporations and quasi-corporations which are intended to compensate for persistent losses - i.e., negative operating surpluses - which they incur on their productive activities as a result of charging prices which are lower than their average costs of production as a matter of deliberate government economic and social policy.*** *In*

[1] http://unstats.un.org/unsd/sna1993/toclev8.asp?L1=7&L2=4

*order to calculate the basic prices of the outputs of such enterprises, it will usually be necessary to assume a uniform ad valorem implicit rate of subsidy on those outputs determined by the size of the subsidy as a percentage of the value of sales plus subsidy.*

The definition in §7.72, stating that '*current transfers that governments make directly to households as consumers are treated as social benefits'*. See chapter on suggested methods below, where this is suggested to be included.

The SEEA 2003 refers to the definition of System of National Accounts 1993 (SNA) subsidies on production. The SEEA presents environmental protection expenditure accounts (EPEA) type environmental[2] subsidies in the income/capital accounts: Table 6.3 in SEEA, divided into Environmental subsidies and Non-environmental subsidies (the rest).

SERIEE gives guidance on the motive being the selection criteria (Eurostat, 2007, page 83, specific transfers). The so-called Joint questionnaire, a biennial survey from OECD/Eurostat is adapted to this definition.
(…)

§7.79b *Other subsidies on production:*
*Subsidies to reduce pollution: these consist of subsidies intended to cover some or all of the costs of additional processing undertaken to reduce or eliminate the discharge of pollutants into the environment.*

## *2.2 Capital transfers*

In discussions with researchers and national or international agencies, the terminologies for subsidies are not within the limits of the SNA-definition for subsidies. Often, investment grants are included, which in the SNA are placed elsewhere in the system compared with subsidies.

Investment grants are included in the capital account (chapter 10) of the SNA, that is, the accumulation accounts and balance sheets. These form a group of accounts that are concerned with the values of the assets owned by institutional units or sectors, and their liabilities §10.1. The capital account includes gross capital formation, consumption of fixed capital and capital transfers (in which investment grants are included).

Investment grants D.92 §10.137
*Investment grants consist of capital transfers in cash or in kind made by governments to other resident or non-resident institutional units to finance all or part of the costs of their acquiring fixed assets. The recipients are obliged to use investment grants received in cash for purposes of gross fixed capital formation, and the grants are often tied to specific investment projects, such as large construction projects. If the investment project continues over a long period of time, an investment grant in cash may be paid in instalments. Payments of instalments continue to be classified as capital transfers even though they may be recorded in a succession of different accounting periods.*

[2] Environmental subsidy is equivalent to what we term environmentally motivated subsidy

# 3. Methods

## *3.1 SEEA transfers*

The SEEA transfers are formed by the SNA subsidies complemented with current transfers to households, to non-profit organisations in the local and government owned sector, to municipalities/county councils and to international receivers. On the capital side the capital transfers given to government-owned enterprises, municipal and private companies, households and international receivers are included. The transactions that are visible in the accounting framework and in government budgets are termed “on-budget”. In the table below, the accounting identities that are part of the SEEA transfers are outlined.

**Table 1. Main on-budget categories of environmentally related SEEA transfers.**

| |
|---|
| 1. Current transfers to industry, households, organisations and non-profit organisations, municipalities and international receivers. |
| • Environmentally motivated (EM) |
| |
| 2. Capital transfers to industry, households, organisations and non-profit organisations, municipalities and international receivers. |
| • Environmentally motivated (EM) |
| |
| |

Here we consider the direct “on- budget” transfers which are environmentally motivated. They are called on-budget, as they are recorded in the national accounts and in the state budget.

## *3.2 Environmentally motivated transfers*

**Selection criteria for SEEA-transfers is the stated/technical nature of the action**

The §7.79 identify subsidies *undertaken* to reduce or eliminate the discharge. From this paragraph it can be deducted that it was the *motive behind or the technical nature* of the subsidy that was of importance when allocating the expenditure to the accounting framework and not the *results* of the actions. The motive and technical nature behind the transfer is taken as the primary criteria for the inclusion of a transfer as an environmental economic policy instrument. As a separate item, transfers with an indirect environmental motive, such as public transport transfers, are included in the total environmentally motivated transfers.

The environmentally motivated transfers can be presented by NACE/ISIC group, as demonstrated in Table 2.

**Table 2. Tentative table for SEEA on-budget environmentally motivated transfer reporting**

In monetary units. Example of nace/isic groups

| NACE and final demand categories | Agriculture, fishing, forestry | Industry | Energy | Transport | Public expenditure | Private consumption |
|---|---|---|---|---|---|---|
| **A. On-budget** | | | | | | |
| Current transfers | | | | | | |
| -EM | | | | | | |
| | | | | | | |
| | | | | | | |
| Capital transfers | | | | | | |
| -EM | | | | | | |
| | | | | | | |
| | | | | | | |
| Total EM SEEA transfers | | | | | | |
| | | | | | | |
| | | | | | | |

EM: Environmentally motivated
Current transfers: Subsidies (D.3), other transfers and Social transfers in kind Ch 8 §D.63 §899.
Current transfers consist of all transfers that are not transfers of capital; they directly affect the level of disposable income and should influence the consumption of goods or services.
Capital transfers: Investment grants

# 4. Discussion

In the preparation of this paper, the wish to set the definitions on the grounds of a full *impact analysis* has been raised. However, such analysis will need valuations that are likely to be difficult for statistical bureaus to use as parts of official statistics. Instead, the suggestions here will be based on more pragmatic solutions, using the data at hand in the SEEA as well as the written material from the budget process.

The principal selection criteria for finding the environmental economic policy transfer are the motive or the technical aspect for a transfer. Thus, transfer to farmers for keeping meadows with production practices that maintain biodiversity, is an example of such transfers. Other can be government expenditure for R&D that is allocated for wind power.

As many subsidies have more than one purpose, and often used to support a region or an activity in general terms, this can seem like a difficult criteria to use. Mentioning environment as one motive out of several, where regional development and increased wealth are being motives, as is frequent in motivations for new roads, is not seen as a strong enough motivation. Also, in several countries transfers to biofuels can be seen as motivated as a substitute for fossil fuels, but as a potentially environmentally damaging transfer if the rainforest is being cut down as a consequence. The aim is to make it possible to show how transfers are used as economic steering instruments in the environmental policy. The term environmentally motivated is thus not to be mistaken for “environmentally beneficial’. Thus, it is possible for the users to argue for more optimal subsidy schemes or other more suiting economic instruments, based on separate assessments.

# 5 References

Eurostat 2007. Environmental expenditure statistics – General government and specialised producers data collection handbook.

UN et al. 1993. System of National Accounts.