

## **Briefing note for UNCEEA**

### **SEEA CF research agenda:**

#### **Integrated framework for environmental activity accounts**

**Eurostat**

SEEA CF chapter IV is devoted to environmental activity accounts and related flows. These accounts record transactions in monetary terms that may be considered environmental (SEEA CF §4.1). There is not one single SEEA environmental activity account but many, and each of them addresses the domain from a specific angle or with a specific focus. Unfortunately, these accounts are presently not well integrated with each other: there are duplicities and gaps; some results are hard to reconcile; the same term has different meanings for different accounts, e.g. 'adapted product', etc.

There is one item on the SEEA CF research agenda to develop an *integrated framework* for the environmental activity accounts. The integrated framework was developed by Eurostat, the lead agency on this SEEA CF research agenda topic, based on extensive consultations with international experts including discussions and review in the following meetings/fora: Eurostat working group on monetary environmental statistics and accounts since 2013, the London Group in October 2017, and most recently a review of experts which took place in March 2018 to advise the SEEA CF technical committee.

Eurostat, in consultation with international experts and with the endorsement of the technical committee, has developed an integrated framework covering the following four accounts:

1. Environmental goods and services sector (EGSS) account
2. Environmental protection expenditure account (EPEA)
3. Resource management expenditure account (ReMEA)
4. Environmental subsidies and other transfers (ESST) account

All these accounts address *environmentally beneficial products* (i.e. environmental goods and services) or environmental activities or related economic flows (such as production, consumption, investment, financing, jobs and salaries) or economic units involved in those flows (e.g. environmental producers). There is a second type of environmental accounts which address other types of flows linked to *environmentally harmful products or activities*, for instance accounts on environmental taxes (which are actually about taxes on environmentally harmful products), subsidies on fossil fuels, etc. (they are addressed in SEEA CF 4.4). This second type of environmental activity accounts does not require the same level of integration, and is not part of the integrated framework although it belongs in SEEA CF.

The integrated framework is articulated in three elements as follows:

- I. A common set of concepts and definitions with harmonized terminology for the accounts in the integrated framework. It is essential to have unified terminology. The

terminology covers **environmental activities** (environmental protection and resource management; no changes from the definitions in SEEA CF Chapter IV), **environmental producers** (including specialist, secondary and ancillary producers) **and environmental products** (including specific products, cleaner products and resource-efficient products). In particular the environmental products and their categories are defined according to the principle of environmental purpose, either as primary purpose or as secondary purpose. Legacy names which had different meanings in old handbooks are abandoned to avoid misunderstandings.

- II. A set of specific *features* for each account, well defined and coordinated with the other accounts in the framework. *Features* mean the scope of each account, variables, valuation rules and main classifications used. EGSS focuses on the supply of environmental products (output, value added, employment), EPEA focuses on demand and financing of environmental protection (final consumption, intermediate consumption, investments, international environmental transfers) and ReMEA focuses on the demand and financing of resource management. The environmental subsidies (ESST) account supports EPEA and ReMEA by providing details on financial flows with regard to environmental activities. EGSS puts emphasis on breakdowns by ISIC and types of production, EPEA and ReMEA put emphasis on institutional sectors responsible for the expenditure and financing.
- III. A set of tables which link between the accounts in the integrated framework. The note proposes a supply-use table on environmental products, a production account and a functional expenditure account. The set of tables is based on similar tables in SNA. National compilers are not required to produce these tables. The tables may be useful depending on national circumstances. They may be a powerful tool to enhance coherence of the estimates and to increase quality. The tables can be used either for compilation of the accounts or for dissemination purposes. Key indicators can be derived too, e.g. for EPEA and EGSS.

Because of the modular structure of SEEA CF and the integrated framework, national compilers are not obliged to compile all the four accounts EGSS, EPEA, ReMEA, ESST. Indeed, no country in the world currently does it. National compilers can choose to compile only one module or several ones, according to their national circumstances and preferences. The integrated framework anticipates this eventuality and proposes for each of the four accounts possible 'supplementary features' which come on the top to the 'core features', so that, for instance, one country can choose to compile only EPEA and adding some supplementary features which would make it close to another country compiling simultaneously EGSS and EPEA, and doing it in a consistent way supporting international comparability.

The main changes as compared with the SEEA CF chapter IV are: first, a unified terminology for all the accounts. This brings no changes to definitions of environmental accounts, but there is a turning point for some environmental products; in particular concepts such as adapted goods and connected goods are discontinued and there are new concepts cleaner products and resource-efficient products, which are unified for all the accounts. Secondly, the redundancies and overlaps between accounts (e.g. output in EGSS and EPEA) are removed, providing clarity for users and efficiency gains for compilers. Tests on efficiency gains are currently ongoing in

some European countries and more tests should continue. The tests are not expected to question the conceptual framework. Thirdly, a few variables are valued differently; in particular a double valuation at full costs and extra costs is proposed for cleaner and resource-efficient products. This is to facilitate balancing of supply-demand and for different types of analysis. Lastly, the new set of tables linking between the accounts provides transparency and guidance for producers and users alike.

At its June 2018 meeting, the SEEA Central Framework Technical Committee reviewed the integrated framework and found it to be methodologically sound. It agreed with the proposal to submit the framework to the UNCEEA for its consideration subject to minor, non-substantive updates (e.g. including fictional data in the tables) to be included in the final version of the document. Based on the general discussion on the proposed process for finalizing CEEA CF Research topics<sup>1</sup>, the UNCEEA is invited to discuss the process for finalization of the integrated framework.

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<sup>1</sup> See Area B1-SEEA Central Framework Progress Report to the 13<sup>th</sup> UNCEEA