



DEPARTMENT OF ECONOMIC AND SOCIAL AFFAIRS  
STATISTICS DIVISION  
UNITED NATIONS

SEEA Revision  
Issue 7  
Cover Note

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## Cover Note

### Issue #7: Environmentally Related Subsidies

#### Outcome paper for global consultation

*Outcome Paper Issue #7: Environmentally Related Subsidies*

#### Issue description

The SEEA-2003 does not provide a definition for environmental subsidies. A definition as well as a taxonomy of what constitute environmental subsidies and their recording in the 2008 SNA should be developed. Examples of questions to be addressed are: should transfers to public authorities and to households be considered environmental subsidies? Should capital transfers be included as part of environmental subsidies? Should off-budget (e.g. preferential tax treatments or external cost references) be included? Should environmentally-motivated or potentially environmentally damaging be identified from within environmental subsidies?

#### Background

One motivation for the development of environmental and economic accounting is the recognition of the linkages between the economy and the environment. Some of these linkages concern the unpriced use and extraction of environmental resources both as input to, and sinks for, economic activity. Consequently, the boundary between the economy and the environment contains many and varied externalities reflecting the inability of naturally forming markets to operate effectively. In this situation there is a role for governments to enact relevant policy to ensure a use of the environment consistent with societal expectations.

Two primary mechanisms of government in this regard are taxes and subsidies. This outcome paper considers how environmental subsidies and related transactions should be defined and accounted for in the revised System of Environmental and Economic Accounts (SEEA). A separate issue on the definition and treatment of environmental taxes and related transactions is also the subject of the SEEA revision. The relevant outcome paper is Issue #6: Environmentally related taxes.

Environmentally related subsidies are introduced in SEEA-2003 Chapter 5 *Accounting for economic activities and products related to the environment* and in Chapter 6 *Accounting for other environmentally related transactions*. Subsidies and other transfers are mentioned in relation to a range of issues including forest management, environmental protection expenditure accounts, government fiscal accounts and in relation to income and capital accounts.

In all of these cases a key connection is the identification of transactions currently in scope of the core economic accounts (as articulated in the System of National Accounts (SNA)) but not clearly visible in those accounts as being of an environmental nature. The starting point for determining treatment of these transactions is therefore to identify the relevant types of transactions in the SNA and then determine which of those transactions should be considered to be environmental.

## Summary of outcomes

The overall outcome from discussion within the London Group is that the revised SEEA should include a range of transfers within the definition of environmentally related subsidies and that the environmental status should be based on the main purpose of the payment. The following specific recommendations are made:

**Recommendation 7.1:** That in the revised SEEA environmentally related subsidies should have a scope that includes the following types of transfers as defined in the 2008 SNA: Subsidies, Social benefits to households, Other current transfers, Investment grants, and Other capital transfers.

**Recommendation 7.2:** That environmentally related subsidies should be included where the main purpose or subsidiary purpose of the payment is for environmental protection or resource management.

**Recommendation 7.3:** That the relationship between environmentally related subsidies and potentially environmentally damaging subsidies (PEDS) should be explained in the revised SEEA but that a definition of PEDS should not be included.

**Recommendation 7.4:** That environmentally related subsidies should be restricted to payments from the general government sector to all domestic sectors and the rest of the world.

**Recommendation 7.5:** That environmentally related subsidies should be classified according to standard economic classifications and, where possible, using classifications of environmental activities.

## Questions

1. Do you agree that in the revised SEEA environmentally related subsidies should have a scope that includes the following types of transfers as defined in the 2008 SNA: Subsidies, Social benefits to households, Other current transfers, Investment grants, and Other capital transfers?
2. Do you agree that environmentally related subsidies should be included where the main purpose or subsidiary purpose of the payment is for environmental protection or resource management?
3. Do you agree that the relationship between environmentally related subsidies and potentially environmentally damaging subsidies (PEDS) should be explained in the revised SEEA but that a definition of PEDS should not be included?
4. Do you agree that environmentally related subsidies should be restricted to payments from the general government sector to all domestic sectors and the rest of the world?
5. Do you agree that environmentally related subsidies should be classified according to standard economic classifications and, where possible, using classifications of environmental activities?
6. Any other comments?

To submit responses to these questions please complete the accompanying comment form available on the website.

**Deadline for comments: 18 November 2010**