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PROGRESS REPORT LONDON GROUP

Paper prepared by Chair of the London Group

(for discussion)

**Progress Report London Group
UNCEEA Meeting June 2009
Chair London Group**

1. Introduction

This report reviews the progress made to date by the London Group in its review of revision issues related to Volume I of the revised SEEA. The current state of play is discussed issue by issue. The subsequent paragraph reviews developments in the area of SEEA Volumes II and III. The final paragraph of this report draws some conclusions and suggests on how to move the research agenda forward.

2. SEEA Volume I Issues, state of play

1. Harmonisation of MFA with the SEEA

This issue entails besides streamlining of terminology the following three conceptual sub-issues, recording of cultivated biological resources, treatment of consumer durables and recording of landfills. All these issues were discussed in meetings in Johannesburg and Rome and, as indicated in the 2008 progress report, brought to an end. The outcome paper is pending.

2. Definitions and classifications of physical flows

This substantial issue entails a complete and consistent classification system for materials, water and energy flow accounts. Since the Johannesburg meeting classifications related to physical flow accounting have been discussed in all London Group meetings. Central in these discussions was how CPC can be aligned to the European Waste Classification (EWC).

The classification of energy flows will follow IRES as much as possible.

Another concern is improving or replacing the SEEA-2003 definition of residuals and ecosystem inputs. An overarching issue paper will be presented in the next Wiesbaden meeting, representing the view of all key players in this area: Destatis, Eurostat, Istat, Statistics Canada, Statistics Denmark, Statistics Netherlands and UNSD. This paper will also reflect already closed sub-issues such as overlaps between the three subsystems and functional classifications required to distinguish among other things between combustion related and other fuel consumption.

Due to the importance of this issue it is crucial that this paper arrives well before the next London Group meeting.

3. Linking energy flow accounts, energy balances and energy basic statistics and emission inventories and accounts

The revised SEEA Vol. I will present bridge tables explaining differences in underlying definitions and classifications between energy balances and accounts. Likewise the

revised SEEA will explain differences between air emission statistics (following IPCC reporting rules) and air emission accounts. In general terms, these tables are well understood and their design was discussed by the London Group at its Brussels meeting. However, a final proposal must be aligned with IRES which is currently being updated by the Oslo Group.

4. Renewable energy

An issue paper on the recording of renewable energy sources was discussed by the London Group in Canberra. For hydropower it was agreed that the natural resource (water reservoir) should be distinguished from fixed assets (e.g. the dam) Water reservoirs which are specifically used for hydropower generation should be classified as renewable energy assets. No agreement could be reached on the recording in SEEA of solar, wind and other renewable energy sources. A follow up paper will explore relationships with land rent and include further improvements in rent calculation methods.

The classification in SEEA of renewable energy in terms of flows should be in line with IRES. There may be an issue of timing here.

The discussion on renewable energy pointed out that the current definition of resource rent in the SEEA needs improvement (action point of the editor).

5. Environment industry

The European System of Environmental Goods and Services Accounts has recently been updated. The London Group considered this system sufficiently mature to be adopted in SEEA Vol. I. The outcome paper is pending and will include a standard set of tables for adoption in SEEA Vol. I and a technical annex representing the methodological chapters of the handbook.

6. Environmental taxes

The discussion on environmental taxes has been brought to an end. The recommendation is to follow the EU, OECD, IEA definition of environmental taxes. The outcome paper will further elaborate on the distinction between taxes and fees and the distinction between resource taxes and resource rent. The general definition of taxes in SEEA will be fully in line with the 2008 SNA.

7. Environmental subsidies

The London Group does not yet consider the issue of subsidies and environment related transfers finalised. A final issue paper will be prepared for approval at the next LG meeting. This paper will provide guidance to the definition of environmentally motivated subsidies as and environmentally damaging subsidies. The paper will also advice on whether the latter group of transfers should be explicitly exposed in either SEEA Vol. I, II or as a policy application in Vol. III.

8. Permits

This issue addresses permits to access natural resources as well as emission permits. A subgroup of the London Group (ABS, Destatis, INSEE, Statistics Denmark, Statistics

Netherlands and UNSD) will prepare a position paper for submission to July 2009 meeting of Eurostat/OECD taskforce on Permits. This paper will consider treatment of ETS, including appropriate treatment of the atmosphere as an asset in the SEEA context as well as the recording of other instruments such as green and white certificates. This issue of permits to access natural resources will also be addressed. Key in this context is whether SEEA will simply adopt the SNA solution to recording of emission permits. The same subgroup will prepare an appropriate set of tables illustrating in quantity terms e.g. issuing, ownership and transfers of emission permits for discussion at the next London Group meeting in Wiesbaden.

9. Classification of natural resource management expenditures

An interim outcome paper has been submitted for final consultation to the London Group. The Group recommended merging together classifications of Environmental Protection Expenditure (CEPA) and Resource Use and Management Expenditure (CRUMA). CRUMA will be submitted for approval of the UN Expert Group of Classifications. This Group will meet in September 2009.

One borderline issue that has been identified by the London Group is maintaining consistency of the MFA natural resource input classification with CRUMA.

10. Classification of assets

Now the asset classification of the SNA-2008 has been finalised, the London Group will discuss a proposal of the SEEA asset classification at its next meeting. This proposal will address the hierarchy in the asset classification of the produced/non-produced distinction. The paper will also explain implications of this distinction in terms of asset valuation. The paper will also explain the differences in coverage in Vol. I of asset accounts in physical units against asset accounts expressed in money values. The latter will obviously be more restricted in scope and only include those national resources that are within the SNA asset boundary.

11. Categorisation of mineral and energy resources

This issue was discussed in Brussels and Canberra. The proposed classifications encompass that of energy resources and their characteristics. The London Group agreed with aligning the classification of mineral and energy resources with UNFC. The hierarchy needs further consideration to ensure consistency with mineral and energy product classifications. The outcome paper will be submitted after finalisation of UNFC 2009.

12. Valuation of assets

At its Rome and Brussels meetings the London Group examined asset values for fish stocks derived from quota systems. Where these systems are well established, quota values are the preferred method to value assets since the gross operating surpluses of extractors do not always seem to capture the entire resource rent of biological resources. In these cases, resource rent calculations as a residual may lead to underestimated asset values. An outcome paper on this particular sub-issue is pending.

At its next meeting the London Group intends to further investigate the robustness of valuation methods for land and forests.

13. Recording of natural resource depletion for non-renewable resources

At its Brussels meeting the London Group took one final opportunity to discuss the depletion issue. Paul Schreyer from OECD participated in this discussion. There was general consensus to keep to the earlier agreed position on defining depletion as the resource rent less the income element. A final outcome paper reflecting this position and highlighting interpretation issues presented in a paper provided by Statistics Denmark will be prepared. In the outcome paper the following two issues need further clarification: (a) allocation of the income element in case of split ownership, (b) recording of the income element in case of no (or small) extraction.

14. Recording of natural resource depletion for renewable resources

As indicated in the 2008 progress report, the London Group took last year a decision on the depletion recording of renewable assets. At the Rome meeting the Group expressed some (minor) concerns about the proposed recording of natural growth of renewables (the SEEA 'output') alongside harvest of these resources (the SNA output) and the role of bio-economic modelling to make judgement on whether 'depletion' has occurred, rather than just a simplistic net natural growth versus harvest estimate. These issues can probably be taken into consideration in the interim outcome paper which means that at this stage no further discussion is being required in a London Group meeting.

15. Decommissioning costs and recording ownership of mineral-related assets

Ownership of mineral assets was discussed in Rome as part of the depletion discussion. The 2008 progress report already indicated (under issue 13) that the London Group supported the option of partitioning the ownership of the mineral resources between the legal owner and the extractor using the "financial lease approach". For making depletion adjusted income and saving figures this option seems the only feasible solution since the depletion adjustments need to be made in the income generation as well as the balance sheet of the extractor. This outcome will be reflected in the outcome paper on natural resource depletion (issue 13).

Regarding decommissioning costs it is expected that the SEEA will follow SNA-2008 recommendations. In the next London Group meeting the interim editor will briefly clarify how the recording of decommissioning costs in SNA-2008 will be translated to the SEEA. This part of the issue is more a matter of clarification than of substance.

16. Treatment of water in artificial reservoirs

The London Group discussed this issue in Canberra but was not yet able to take a decision. The Group sympathises with the argument that water accumulation in artificial reservoirs has parallels with cultivated forest growth. It requested a follow up paper elaborating on the borderline cases (degree of human intervention) between water as a produced or non-produced asset. Implications with regard to resource valuation will also be further analysed.

One point of clarification that came out of the discussion is developing proper wording for the 'net' use of water (inflows minus outflows). This wording should be applicable to other natural resources (energy) as well.

17. Recording of losses (storage, distribution, transformation, theft)

This issue about losses of e.g. water and energy was picked up by the London Group at its Canberra meeting. The group reached agreement about the suggested typology of losses. However it was recommended to expand this typology also to extraordinary losses in the other volume changes in asset accounts.

There was a preference for the net reporting of losses which usually corresponds better to quantities subject to market transactions in the SNA. This will safeguard meaningful unit prices. Information on losses and gross/net recording will be provided in SEEA in supplementary tables. An interim outcome paper will be circulated to London Group for consultation and approval.

18. Valuation of water

The inclusion of water in the monetary asset accounts in SEEA Vol. I will relate only to water in reservoirs. Other valuation aspects of water will be discussed in Vol. II. The valuation of water reservoirs for hydropower generation will be discussed in the outcome paper on renewable energy assets. The paper on water reservoirs as produced or non produced assets will also look at valuation aspects. This means that a separate outcome paper on this issue is not needed. All aspects that are relevant for SEEA Vol. I are dealt with elsewhere.

19. Land

Since the Johannesburg meeting the issue of land (in combination with ecosystem accounting) has been discussed in all London Group meetings. In each of these meetings the London Group emphasised the importance of having standardised classifications for land cover and land use. So far the Group has not been able to formulate concrete proposals in this area.

At the Canberra meeting it was agreed that an issue paper will be prepared on the classification of land including, land cover, use and functions on the basis of the work carried out so far. The paper needs to explain how existing classifications should relate to each other.

Balance sheets of land in monetary terms will be discussed at the next London Group meeting.

20. Recording of soil and its valuation

A clarification paper on ecosystem functions of soil, including carbon sequestration, was discussed in Rome. Unfortunately so far this paper has not been given any follow up. Important research questions are (a) whether soil depletion can be measured in similar ways as depletion of other natural resources (i.e. as the future productive losses of land) and (b) how to deal with carbon sequestration of soils. Gathering scientific evidence on the robustness of soil carbon storage estimates would be helpful to understand if corresponding accounts can be developed for SEEA Vol. I.

21. Forest accounts

This issue addresses both forests classifications and forest carbon sequestration accounting. Both sub-issues are interlinked. A proposal of classifications and aligned tables based on the FAO Global Forest Resource Assessment 2010 was discussed at the Canberra meeting. The proposal explored all relevant tables and classifications for SEEA. The London Group considered that further refinement is needed in developing concrete proposals for a limited set of standard tables for adoption in SEEA.

At the Canberra meeting the issue of carbon binding by forests was also discussed. The London Group considered that accounts for carbon sequestration by forests, measured in CO₂ equivalents, should be included in SEEA Vol. I. However, corresponding monetary accounts should only be introduced in SEEA Vol. II. At the next London Group meeting a concrete proposal will be discussed for adoption.

3. SEEA Volumes II & III

Volume II

SEEA Vol. II will contain the following two building blocks:

- (a) Ecosystem and ecosystem services accounts.
- (b) Valuation techniques for measuring environmental benefits and damages and their representation in national accounts (excluding natural resource depletion which is already covered in Vol. I);

Both building blocks are closely linked.

Vol. II will also include those accounts which are important from a policy perspective but are found at this stage too immature from a conceptual point of view to be included in Vol. I.

In Brussels the London Group discussed the issue of ecosystem services and accounting. The Group concluded that while land cover and land use accounts should become part of Vol. I, ecosystem accounts should be introduced in Vol. II. A research agenda for ecosystem accounting still needs to be put together.

In Canberra the London Group discussed a list of issues related to valuation. An updated list will be submitted to the UNCEEA for approval. The London Group agreed that a technical workgroup is needed to formulate accounting recommendations in this area. A first meeting of this group is scheduled before the end of this year.

At its following meeting the London Group will discuss the full content of SEEA Vol. II.

Volume III

The structure of SEEA Vol. III was discussed in Rome. The group suggested that a first section of this volume would present a limited number of key issues such as climate change and would show how the accounts contribute to policy development. A following section would deal with key environmental assets and demonstrate how the accounts support integrated resource management. Another section would cover other, in particular cross-cutting, applications.

One key policy issue the London Group discussed in relation to Vol. III is sustainable production and consumption. Climate change is another key issue that will be picked up in the next London Group meeting.

The 2008 London Group progress report already indicated that the most relevant policy applications of the accounts covered in Vol. I will be worked out in a working document simultaneously with the preparation this volume. These examples are needed to give strong guidance to the uses of the standardised accounts such as providing key indicators on sustainability and climate change policy issues.

4. The way forward

To conclude, good progress has been made in resolving a large part of the revision issues related to SEEA Vol. I. This part of the SEEA, the standardised accounts, has the tightest time schedule. The last meeting in Wiesbaden will be challenging in finalising all remaining issues. Since at this stage substantial obstacles are not foreseen, it seems still possible to close most, if not all issues, by the end of this year (see also the proposed agenda for the next London Group meeting in the Annex).

The energy related issues (2 and 3) will be finalised in coordination with the Oslo Group and their work on IRES. This means that for these issues there are interdependencies in terms of timing.

There are two important issues in which substantial steps forward still need to be made: land (19) and soil (20). From an environmental perspective land is a crucial asset. Therefore the SEEA standard should be able to recommend on standardised classifications and tables for land cover and use. The FAO/UNEP/GLCN and Corine Land Cover (CLC) classifications, although developed on different grounds, have led to similar practical solutions (legends, nomenclatures) for mapping land cover. So from a pragmatic point of view it seems feasible to align these classifications into one standard. The SEEA standard will include depletion adjusted national income and saving measures. These measures seem incomplete without taking into account productivity losses of land. So far the London Group has not been able to develop methodology in this area. Supplementary expertise seems needed to move this issue forward.

At this stage it would be very helpful if the UNCEEA could assist the London Group in seeking options that would speed up progress in these two areas within the coming months.

Annex

**LONDON GROUP
ON ENVIRONMENTAL AND ECONOMIC ACCOUNTING
15TH MEETING
30 NOVEMBER – 4 DECEMBER 2009,
WIESBADEN
PROPOSED AGENDA, MAY 2009**

Monday, November 30, Morning Session

1. Opening (*Destatis, 15 minutes*)
2. UNCEEA business (*Alessandra Alfieri, 15 minutes*)

Session 1 – Physical flow accounting

3. Definitions and classification of material flows including waste and linkages to energy and water, (*UNSD with Destatis, Eurostat, Istat, Statistics Canada, Statistics Denmark, Statistics Netherlands, 90 minutes*)

Monday, November 30, Afternoon Session

Session 1 – Physical flow accounting, continued

4. Bridge tables for emissions (*Ole Gravgaard, 60 minutes*)

Session 2 – Assets accounting

5. Classification of assets (*UNSD, 120 minutes*)
 - Categorisation produced, non-produced (as SNA)
 - Related valuation issues
 - Vol. I Asset boundary in physical and monetary terms

Tuesday, December 1, Morning Session

Session 2 – Asset accounting, continued

6. Renewable energy, remaining issues (*Statistics Netherlands, 60 minutes*)
7. Water reservoirs, the borderline between produced and non-produced (*UNSD, 60 minutes*)
8. Forest classification (*Statistics Finland, 60 minutes*)

Tuesday, December 1, Afternoon Session

Session 2 – Asset accounting, continued

9. Classification of land cover, use and functions and clarification of their mutual relationships and purposes (*EEA, FAO, Statistics Canada, ABS, others, 120 minutes*)
10. Carbon sequestration (*Statistics Finland and ABS/CSIRO, 60 minutes*)
 - Forest
 - Soil and other storage (land cover) and related classification(s)

Wednesday, December 2, Morning Session

Session 2 – Asset accounting, continued

11. Asset valuation

- Balance sheets for land (*ABS, Statistics Netherlands, 90 minutes*)
- Forest (*Statistics Finland, 90 minutes*)

Wednesday, December 2, Afternoon Session

Session 2 – Asset accounting, continued

12. Soil depletion and degradation (*, 90 minutes*)

Session 3 – Environmentally related transactions and economic instruments

13. Permits (*ABS, Destatis, INSEE, Statistics Denmark, Statistics Netherlands, UNSD, 90 minutes*)

- Progress review Eurostat/OECD Task Force
- Proposal of list of quantity tables (issuing, ownership, transfer, etc.)

Thursday December 3, Morning session

Session 3 – Environmentally related transactions and economic instruments, continued

14. Decommissioning costs, (*Interim editor, 60 minutes*)

15. Subsidies, (*Statistics Sweden, 60 minutes*)

Thursday December 3, Afternoon

Session 4 – Outline Vol. I & III

16. Outline Vol. I (*Interim editor, 90 minutes*)

- Accounting building blocks
- Set of standard tables

17. Outline Interim Vol. III, applications of Vol. I (*Interim editor, DEFRA, 90 minutes*)

- Sustainable Production and consumption
- Climate change
- Indicators

Friday December 4, Morning

Session 5 –Vol. II

18. Research agenda Volume II (*90 minutes*)

- Progress report valuation experts group (*World Bank*)
- Research agenda Ecosystem accounting (*UNEP*)
- Weighing and ‘theme’ indicators (,)

19. Other issues to be transmitted to Vol. II (*Interim editor, 30 minutes*)

Session 6 – Conclusions and recommendations

20. Conclusions and recommendations (*Chair, 60 minutes*)

- Future actions
- Any other business

