

Capital Stock Conference
March 1997
Agenda Item VIII

The London Group: Aims and Functions

Resource Accounting- Environmental and Economic Accounting

1. Background

Growing concerns about environmental degradation and resource depletion, and about the sustainability of economic development, led to new thinking about the relationship between environmental change and economic activity as reflected in the System of National Accounts. Following publication of the SEEA (UN, 1993, System of integrated Environmental and Economic Accounting), many countries are now working to develop satellite environmental accounting systems and considerable experience has already been accumulated in the field of natural resource accounting and environmental accounting more broadly. Nevertheless, there are still many conceptual and measurement issues in this new field. The international comparability, credibility and general usefulness of environmental accounts will be limited until these matters are better resolved. Since countries each have different relative strengths, and all have limited financial means, considerable benefit can be realized from shared international effort in the development of resource and environmental accounting concepts and methods.

A number of developed countries decided in mid-1993 to create amongst themselves a forum for discussion along the lines of the Voorburg group, this time called the London Group. The group deals with both the pluses and the minuses of interaction between the economy and the environment: natural resource accounting on the one hand, and pollution accounting on the other. It involves both physical accounting and valuation work. Time series, linked to traditional national accounts concepts, are central.

The first meeting, in London in 1994, focused on a survey of country's work to date contents and comparison of existing frameworks for integrating environmental and economic data, pros and cons of adjusting national accounts aggregates. The second meeting, in Washington in 1995, considered a broad range of more specific topics: valuation methods for depletion, costs of pollution abatement, application of input-output and other models, international linkages, valuation of air and water pollution. For the third meeting, in Stockholm in 1996, it was decided to go into more detail on a few selected topics: forest accounting, material flows, cost of pollution.

The group functions rather loosely and depends on the active participation of its members for its success. All participating countries are expected to contribute papers and to get involved in the discussions. The membership consists of invited representatives from industrialized countries and from the major international organizations. Practising national accounts statisticians are heavily represented among the group. All participants pay their own way. The meetings are hosted voluntarily by participants, one at a time. So far the United Kingdom, the United States and Sweden have each kindly provided facilities and secretarial functions for one of the meetings. A *Papers and Proceedings* volume is compiled after each meeting.

2. Assessment of the past and Directions for future work.

The group has proved very useful in providing a forum for exchange of experience and discussion of the problems of implementing environmental accounting integrated with national accounts. It has led to a clarification of the concepts and a clearer idea of statistical possibilities and problems. Participants have been encouraged and stimulated by the

example of what practical results have been achieved in other, similar, countries.

The countries participating have more resources than most to test out the methodologies for environmental accounting. The lessons learned can help to foster the development of natural resource accounting throughout the world. Their priorities however are sometimes slightly different and some issues that may be important in other regions (such as soil erosion) are unlikely to attract high priority.

The size of the group is a good compromise- small enough to be effective, yet large enough to encompass a wide range of experience. The papers submitted to the meetings would be valuable to a large audience of national and environmental accountants and wider circulation should be given to the papers, on the understanding that they do not necessarily reflect a consensus in the group.

Considerable progress has been made in some areas and consensus is emerging on a number of issues. In many others the group is not yet in a position to recommend standards or best practice since environmental accounting is still in its infancy, it is continuously evolving and developing and in the present state of the 'science' existing systems and approaches, should be seen as models or pilot projects rather than as agreed standards. SEEA itself is an interim version described in its preface as work in progress.

Even with the relatively homogeneous London Group, the environmental problems and therefore data priorities of countries differ considerably but certain blocks of issues stand out as important to a sufficiently broad group of countries to be worth pursuing together.

At this stage priority should be given to collecting the basic sets of data needed to compile and test environmental accounts rather spending too much time on refinements of the frameworks.

Work of the group in the next couple of years will focus on:

- tidying up some of the remaining issues in the relatively well-tested areas of resource accounting (e.g. sub-soil assets, forests)
- developing new relatively under-explored areas such as accounts for water (availability, use, pollution)
- environmental protection: relating expenditures, technologies, emissions and pollution costs
- experiments with assessing environmental damage and its monetary valuation.

There is an emerging consensus that it is necessary to review the treatment of depletion of natural resources in the national accounts of the SNA itself on essentially economic grounds: i.e. that selling one's assets should not appear as current income. For wider environmental concerns, however, the group leans towards the view that a proper adjusted "eco-GDP", to estimate what GDP would have been if the economy had been on a sustainable path, in which all prices and quantities would have been different, could only be the result of an economic model, not a simple accounting deduction. Such modelling and scenario building work could in the view of many be more appropriately carried out by economic research institutes than national statistical agencies.