



Brussels, 9.12.2013
COM(2013) 864 final

**REPORT FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT AND
THE COUNCIL**

**Regulation (EU) No 691/2011 of the European Parliament and of the Council
of 6 July 2011
on European environmental economic accounts**

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Background to this report

Article 10 of Regulation (EU) No 691/2011 (the “Regulation”) requires the Commission to submit a report as follows

“Article 10

Report and review

By 31 December 2013 and every 3 years thereafter, the Commission shall submit a report on the implementation of this Regulation to the European Parliament and the Council. That report shall evaluate in particular the quality of the data transmitted, the data collection methods, the administrative burden on the Member States and on the respondent units, as well as the feasibility and effectiveness of those statistics.

The report shall, if appropriate and taking into account the findings referred to in Article 4(2), be accompanied by proposals:

- for introducing new environmental economic account modules, such as Environmental Protection Expenditure and Revenues (EPER)/Environmental Protection Expenditure Accounts (EPEA), Environmental Goods and Services Sector (EGSS), Energy Accounts, Environmentally Related Transfers (subsidies), Resource Use and Management Expenditure Accounts (RUMEA), Water Accounts (quantitative and qualitative), Waste Accounts, Forest Accounts, Ecosystem services Accounts, Economy-Wide Material Stock Accounts (EW-MSA) and the measurement of unused excavated earthen materials (including soil),

- designed to further improve data quality and data collection methods, thereby improving the coverage and comparability of data and reducing the administrative burden on business and administration.”

This Regulation was the first Union Regulation on environmental accounting. It introduced three modules

- air emission accounts showing 14 different gases by 64 industry groups and by households
- environmental taxes distinguishing 4 tax types - on energy, transport (other than fuel) pollution, resources - all broken down into 64 industry groups, households and non-residents who pay these taxes.

- material flow accounts for 50 material types showing domestic extraction, imports and exports. Then, Domestic Material Consumption = domestic extraction + imports – exports, for each type of material and in total.

These three were the modules that were most mature statistically and they correspond to important environmental policy needs; air emissions and climate change, economic instruments to limit pollution, and resource efficiency.

At the time this first Regulation was discussed in and subsequently adopted by the European Parliament and the Council, users in the Parliament and the Commissions DGs emphasised that these first three modules were to be seen as a beginning and that the policy needs for environmental accounting went much further. The European Parliament actually inserted into Article 10 (above) a list of new possible modules as priorities for future development.

The Regulation set the date of submitting this first report at 31 December 2013, which allowing the necessary time for adoption, translation and other processes means that this report had to be drafted at a time when the first data delivered under the Regulation was not yet available. A proper assessment of the quality of the data, the data collection methods, etc. will be carried out in early 2014.

Data transmission for the first three modules is good and improving

The first formal data transmission under the Regulation is due on 30 September 2013 for the modules on air emissions and environmentally related taxes and on 31 December 2013 for economy-wide material flow accounts. It is therefore not possible within the deadlines for this report to comment in detail on the quality of that data.

Moreover 6 Member States (Spain, France, Cyprus, Malta, Austria, Poland) were granted partial or total derogations (Commission Implementing Decision, 2012/691/EU of 6 November 2012, OJ L308 of 8.11.2012, p.23) allowing them to provide data up to two years later. However for some of these countries progress has been better than expected which will allow some of them to comply more or less with the requirements of the Regulation.

By the relevant amendment of the EEA Agreement, Annex XXI, Norway and Iceland are bound by the requirements of the Regulation, the latter country with a derogation of two years, while Liechtenstein has been exempted.

At the time of writing this report, the formal deadlines for the delivery of the data to the first data collection under the regulation have only just or not yet passed. However, a large number of countries have already supplied a considerable amount of data on a voluntary basis: by mid-2013 about 20 countries had supplied complete or almost complete data for the environmental taxes and the air emissions accounts and 24 had supplied the material flow accounts. Progressively the coverage (number of countries and degree of completion of individual tables), the timeliness and reliability have consistently improved.

Eurostat and the national statistical institutes work together in working groups and special thematic task forces to ensure a high level of accuracy, coherence and comparability of the data.

The results of the voluntary data collections are published on Eurostat's web site and in various publications.

Formal quality assessment in the first half of 2014

A format for the quality report, which article 7 of the Regulation requires the Member States to provide to the Commission (Eurostat), has been developed within Working Groups and the first report will follow the first data delivery at the end of 2013. All aspects of quality will be covered: timeliness, comparability, accessibility, clarity, coherence, completeness and reliability. The report will also contain a structured description of sources and methods used to compile the data. The report will be discussed with Member States in spring 2014 and will form the basis for a plan to further improve data quality, including comparability and timeliness.

Uses of the data

Environmental accounts data are used in a variety of policy applications both at national and EU level. One particularly prominent example is the Domestic Material Consumption from the material flow accounts which was adopted as the main headline indicator for the EU 2020 Resource Efficiency flagship initiative. The air emission accounts contribute to our understanding of the economic sectors responsible for greenhouse gas emissions that lead to climate change and the environment taxes (especially energy taxes) are an important economic instrument to reduce emissions and also included under the resource efficiency indicators. These data are especially pertinent in the context of policies developed under the Europe 2020 strategy that aim at both reaching climate and energy objectives while ensuring sustained economic growth.

All the data received is included in several publications and analyses and can be consulted on Eurostat's publicly accessible web site.

http://epp.eurostat.ec.europa.eu/portal/page/portal/environmental_accounts/introduction

The web site also contains background information, methodological handbooks and compilation guides, as well as the various publications of the existing data. Still, these three modules can be further promoted as they become more established, to further stimulate their up-take by users who may not be familiar with their added value. As they are based on existing datasets, it is not uncommon that users go directly to the original data, without being fully aware of the advantages of environmental accounts, in particular the possibility for integrated environmental economic analysis. For example, air emissions accounts are still relatively less widely used as compared to greenhouse gas inventories or the emissions data under the LRTAP Convention. Another example can be environmentally related taxes whereby the datasets under the Regulation provide a further breakdown by the economic activity paying the taxes, which is a useful added parameter for detailed fiscal analysis. Therefore, more efforts should be devoted to popularizing the use of the datasets in targeted publications and statistical events, as transmission of data becomes more routine under the Regulation and as full completeness and longer time series are progressively available.

A lot of the practical use of the data is made at EU level and by specialised research institutes. In some countries the data seem to be widely used, but some other national statistical institutes report that relatively little use is made of the data by national governments and its wider use should therefore be encouraged. Use of the data can be expected to increase as the coverage improves in terms of number of countries and length of time series available to analyse trends.

Environmental accounts are also being developed at international level

The environmental accounts required under this regulation are designed as “satellite accounts” to the conventional national accounts: the European System of national and regional Accounts (ESA) and the world-level System of National Accounts (SNA). The three accounts/modules included in the first Regulation are also included in the world-level System of Environmental-Economic Accounting (SEEA) which was adopted as an international statistical standard by the United Nations Statistical Commission in March 2012 (supported and published by UN, European Commission, OECD, World Bank, IMF and FAO). Eurostat and several EU countries made major contributions to drafting the SEEA.

Key aspects of these accounts are being advanced also by the OECD and UNEP green growth strategies and by the World Bank initiatives on Natural capital accounting.

Administrative burden is small

To fulfill the data requirements of the Regulation, countries’ national statistical institutes can make use of existing basic data which they then adapt to the classifications of national accounts.

For instance the air emissions accounts start from work already done for the air emission inventories which are required by the reporting under the United Nations Framework Convention on Climate Change (UNFCCC) and under the UNECE Convention on Long-range Transboundary Air Pollution (CLRTAP); the environmental accounts then expand those to fit the classifications and concepts of the input-output tables of the national accounts, so that they can be aligned with statistics on the industrial and service sectors of the economy.

Environmental taxes are identified within the list of national taxes reported already by countries to the Commission (Eurostat).

For the material flow accounts, data on domestic extraction is taken from agricultural statistics (for biomass production), from data on mining and quarrying for the minerals, from energy statistics for fossil energy materials and from external trade statistics for the imports and exports.

By re-using existing data, the additional response burden on enterprises is extremely small. The workload is largely within the national statistical institutes to process existing data and enhance the analytical usefulness of the basic data by aligning it with the concepts and classifications of national accounts. In most countries this typically represents about two full-time people in total for the first three modules. To develop new modules and to maintain and

further enhance the quality of the environmental accounts it is essential that the national administrations ensure that sufficient resources are made available.

Eurostat assists countries to implement the first three modules

Eurostat has been assisting the Member States who needed it to implement the first three modules through a variety of means, including:

- Grants for pilot studies,
- Facilitating sharing of experience between countries,
- Training courses under the European Statisticians Training Program
- Handbooks and manuals.
- Stream-lining and rationalising the way data will be transmitted to Eurostat for the first three modules.

Three additional modules have been proposed

Eurostat and the Member States continued to develop new modules in statistical working groups. In the period 2011-2012 methodologies were developed and pilot tests were carried out, in particular regarding the first three modules listed in Article 10: environmental protection expenditure, environmental goods and services sector and physical energy flow accounts. These were judged the most mature from a conceptual point of view and the necessary basic statistics exist. For these new modules too, there is little or no response burden for enterprises or households but rather the work will be carried out by the national statistical offices to align and adjust data already collected for other purposes (statistical or administrative). The new modules also correspond to EU policy priorities of green growth and resource efficiency

The Commission (Eurostat) Eurostat is assisting the countries to prepare for the three new modules with grants, exchange of experience, handbooks, etc. as in previous years for the first three modules. For example: supported by such grants, the module on environmental protection expenditure has been the subject of pilot tests in 20 Member States since 2001; EGSS pilot studies have been carried out in 12 Member States and energy accounts have been tested in 12 Member States. In addition some countries have carried out pilot studies without EU financial support. Norway and Switzerland also participated actively and shared their experience. In total significant experience with these modules exists and has been shared by Member States in technical meetings. It was largely taken into account which allowed the European Statistical System Committee to give a positive opinion on the draft Regulation on 7 February 2013. A catalogue of the pilot studies is available on Eurostat's web site here:

http://epp.eurostat.ec.europa.eu/portal/page/portal/environmental_accounts/introduction

On this basis the Commission adopted on 2 May 2013 a proposal for an amending regulation (COM(2013)247) with the purpose of adding these three modules to the first Regulation. At

the end of 2013 discussions of the draft amending regulation were advancing well in Council and European Parliament.

Further modules being prepared

Work is also continuing on most of the other accounts listed in Article 10:

- Environmentally Related Transfers (subsidies), where a task force of experienced Member States is developing a framework for data collection.
- Resource Use and Management Expenditure Accounts (RUMEA), where the focus has been on resource management activities in conjunction with the implementation of the new module on EGSS.
- Water flow accounts, where conceptual work has advanced but is hampered by a lack of basic data.
- Forest Accounts, through the development of Integrated Environmental and Economic Accounting for Forests consistent with SEEA.

These are potential candidates for a third “batch” of modules.

All these potential modules were part of the European Strategy for Environmental Accounting adopted in 2008 by the Statistical Programme Committee which is made up of the heads of all the national statistical institutes. This ESEA 2008 is currently being updated to reflect the adoption of the first Regulation and the start of the second as well as to take a fresh look at new policy needs. The Member States National Statistical Institutes are currently reluctant to accept too many more modules because of budget cuts and staff shortages. They recommend instead focusing first on improving quality and promoting the use of the first three and second three modules.

Ecosystems services accounts and biodiversity are much in demand politically, but from a measurement point of view are at a very early stage of pioneering development and research which requires multi-disciplinary teams including biologists, environmental specialists, cartographers as well as statisticians. For this reason it is considered preferable to leave the lead to the European Environment Agency. The role of National Statistical Institutes at this stage would be mainly to provide basic data - such as agricultural production, land use (LUCAS) data and regional statistics - as well as to provide advice on statistical issues when needed.

Improved timeliness needed

Another new request emerging from users is improved timeliness. The first three modules were conceived as fairly detailed structural data to analyse the mutual interactions between the economy and the environment in the selected areas covered by the first Regulation. Following the introduction of the European Semester, the Union’s economic and fiscal policy planning exercise, there is a wish to include environmental aspects into the semester alongside conventional economic data such as GDP. Eurostat is working with national statistical institutes to see in which ways these environmental accounts could be compiled earlier.

Considerable progress has been made both in the countries and in Eurostat to compile and process the accounts faster. However this is unlikely to produce the level of timeliness required for the Semester. Eurostat is therefore also examining ways to make flash estimates for some main indicators much earlier (e.g. estimates of CO₂ emissions at t+4 months calculated from Eurostat's monthly statistics of energy use).

The way forward

The Commission (Eurostat) will thoroughly check the quality of the data received for the first three modules at the end of 2013 and suggest improvements to individual countries, or to the overall methodology, where needed.

Discussions on the second "batch" of modules will continue in 2014 in the European Parliament and Council. Statisticians will continue to prepare for the practical implementation of these three additional modules.

The European Strategy for Environmental Accounts will be revised in conjunction with main user groups and with the national statistical institutes. The target date for completion of this new ESEA is mid- 2014.

The Commission and the Member States administrations will continue to work together to ensure greater visibility and use of the results of the environmental accounts.