

**Senate Standing Committee on Economics**

**ANSWERS TO QUESTIONS ON NOTICE**

**Treasury Portfolio**

Supplementary Budget Estimates

17 October – 18 October 2012

**Question:** SBT 74

**Topic:** Measures for GDP and the Environment

**Written:** Received from Committee – 26 October 2012

**Senator MILNE asked:**

74. A polluting factory's output will count towards GDP. The cost to the community of the damage it does to the environment should be deducted from this to get a genuine measure of progress or contribution to well-being. Is work being done along these lines, and if so what number is being used as the social cost of the emission of a tonne of greenhouse gases?

**Answer:**

Gross Domestic Product (GDP) is a key macroeconomic variable contained within Australia's System of National Accounts. GDP includes value added by all economic activity in Australia

The United Nations has commenced work to develop a statistical standard that supplements GDP by taking into account interactions between the economy and the environment.

The standard is called the *System of Environmental-Economic Accounting (SEEA)* and will be comprised of three parts. The first part, the Central Framework of the SEEA, was endorsed as an international statistical standard in 2012. The two remaining parts are yet to be completed and relate to the SEEA Experimental Ecosystem Accounts and the SEEA Extensions and Applications. The Central Framework of the SEEA defines and presents various environmental assets, such as, forests, water, fish resources, and oil and gas resources. These assets are measured in both physical terms (tonnes, joules etc.) and monetary units. The decline in value of these environmental assets due to human extraction is described as 'depletion' and the value of depletion is deducted from the SNA measure GDP (and Net Domestic Product) to derive depletion-adjusted GDP (and depletion-adjusted NDP).

The measure of 'Depletion' contained in the Central Framework of the SEEA however addresses only the decline in the provisioning capacity of environmental assets caused by human use. It does not address the impact of declining *quality* of ecosystems due to the actions of (for example) polluters. The international statistical community under management and guidance of the United Nations is currently producing the SEEA Experimental Ecosystem Accounts and this part will address a range of measures including valuation of ecosystem services. The precise nature of the SEEA Experimental Ecosystem Accounts remains a work in progress, and the ABS has not generated any estimates of the value of environmental degradation or the social costs arising from greenhouse gas emissions. The ABS remains a leading driver in the development of the SEEA framework and is publicly committed to the ongoing production of SEEA-style accounts.