

2018 Federal Budget Consultation Submission

Prepared for
The House of Commons
Standing Committee on Finance

The Natural Capital Lab
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Executive Summary

The need for sound management of natural capital is greater than ever. Climate change, population and economic growth, pollution and changing public and political objectives are all increasing the pressure on governments to be wise resource stewards. There are existing methodologies and frameworks aimed at guiding businesses and governments through natural capital measurement and management processes, but all of these methods benefit from having access to reliable, consistent and replicable data. With a few strategic investments and policy changes, Canada could become a global leader in valuing and sustainably managing its natural wealth.

It is for this reason that the Natural Capital Lab (the Lab) was formed. A national initiative convened by the Natural Step Canada in partnership with key industry and community stakeholders, the Lab brings together a cohort of private, public and civil society sector leaders to develop and test innovative methods and tools to include natural capital in Canada's decision-making. The Lab is part of a growing network of ['Sustainability Transition Labs'](#) that collectively share a vision and a set of principles aimed at driving system innovation towards greater sustainability.

The Natural Capital Lab is convened by The Natural Step Canada in partnership with Chartered Professional Accountants of Canada, the Co-operators, Deloitte, TD Bank, Ontario Trillium Foundation, Smart Prosperity Institute and the Municipal Natural Asset Initiative.

Our submission for Federal Budget 2018, focuses on how the collection, analysis and management of natural capital accounts (NCA) would support the Government of Canada's priorities related to building a productive and competitive economy.

Text Box 1 - Relevant Definitions

NATURAL CAPITAL

“Natural capital is another term for the stock of renewable and non-renewable resources (e.g. plants, animals, air, water, soils, minerals) that combine to yield a flow of benefits to people. The benefits provided by natural capital include clean air, food, water, energy, shelter, medicine, and the raw materials we use in the creation of products. It also provides less obvious benefits such as flood defence, climate regulation, pollination and recreation.” (Natural Capital Coalition, 2017)

ECOSYSTEM GOODS AND SERVICES

“Ecosystem goods are the products from natural capital such as food, fibre, clean air, and water; ecosystem services are the less tangible but no less significant benefits from ecosystem processes such as nutrient cycling, water purification and climate regulation, and non-material benefits such as recreation, aesthetic and cultural benefits.” (Source: Municipal Natural Asset Initiative, 2017).

Budget Recommendation 1: Allocate Funding to Statistics Canada for the completion of its Natural Capital Accounts

Economic analysts have long benefited from the complete, coherent and reliable data on GDP and other indicators they can access through the System of National Accounts. It is time that economy-environment analysts benefited from the same kind of integrated data on natural capital.

Managing natural capital requires that we first understand what we have. Natural Capital Accounting (NCA) focuses on measuring these assets and how they are used. It provides a systematic approach to the measurement of the stocks and flows of natural capital in physical and monetary terms. It allows the cost and benefits of using and protecting our natural capital to be assessed. Importantly, it allows us to ensure that our natural wealth is being used sustainably.

Canada has already made strides in this direction. For example, Statistics Canada hosts a natural capital accounting program, tasked to collect, develop, compile, analyze and publish data emphasizing linkages with socio-economic data. Development of the natural capital accounts to date has been limited to minerals, timber, energy, land, water and GHG emissions. Some experimental work on ecosystems has also been completed.

Despite these efforts, there are many outstanding challenges facing Canada's NCA accounts. As it stands, these statistics are often incomplete. Data on the extent and quality of wetlands, for example, suffer from serious gaps in Canada. Even where gaps are not a major problem, other shortcomings can limit the usefulness of environmental statistics. It may be difficult to access and interpret the statistics because they are not centralized or documented by governments. Sometimes governments are not the custodians of environmental statistics at all, but researchers or corporations. In these cases, access to the statistics by the public will be even more difficult.

Perhaps most seriously, environmental statistics are subject to inconsistency and incoherence. They are inconsistent because of methodological and conceptual changes over time. These changes are rarely implemented backwards in time, limiting the usefulness of environmental statistics for time-series analysis. One such example is toxic pollution statistics, which cannot be analyzed over time because of changes in the way the *National Pollutant Release Inventory* has been compiled.^[1]

Environmental statistics on different environmental issues – for example, greenhouse gas emissions and sulphur dioxide emissions – cannot always be compared with one another. Most commonly because statistics are often compiled using different structures and collection; in the case of greenhouse gases and sulphur dioxide emissions, for example, different classifications of industries are used to structure the statistics.

Building a world-class NCA system will require us to address the above challenges and limitations currently affecting our data collection efforts. Specific measures or activities to support and improve the consistency, coherency, accuracy and availability of natural capital data include:

- Improve the quality of existing accounts (e.g., new estimates of timber value; more detailed estimates of land cover)
- Complete the coverage of commercial natural resources and their value (e.g., add marine resources)
- Complete the coverage of pollution emissions and their costs
- Add an account for environmental financial flows (e.g., carbon tax revenues)
- Fully measure ecosystems and their benefits
- Expand the current quarterly measure of natural wealth to include all natural capital
- Increase the frequency of publication of all accounts to quarterly or annual

Making the above enhancements would require new investments in Canada's basic environmental statistics.

Budget Recommendation 2: Investigate the United Nations System of Environmental Economic Accounting for Relevance to Statistics Canada

An international set of guidelines for NCA – the United Nations *System of Environmental Economic Accounting* (SEEA) – has been established and is already being used to support NCA in Canada and other countries, and at the World Bank, the OECD, the UN and other international bodies (see Text Box 2). Fully implementing the SEEA in Canada could be accomplished with a relatively modest investment. Less than 1 percent of Statistics Canada's total budget is currently devoted to NCA and underlying statistics. Increasing this to just 10 percent would be sufficient for Statistics Canada to publish a high-quality set of NCA on a regular basis, as it so successfully does with the *System of National Accounts*. So much of Canada's income, wealth and well-being depend on natural capital that spending just 10 percent of Statistics Canada's budget measuring it would be a reasonable investment. Notably, our recommendation would be to finance this budget increase through the allocation of new funding, and not through the reallocation of existing resources. Moreover, we recognize this is an ambitious recommendation. Building a world class NCA for Canada could be done through a phased approach of yearly, sustained resource allocations.

Text Box 2 - The UN SEEA

The SEEA contains the concepts, definitions, classifications, accounting rules and tables necessary to produce NCA. Policymakers and managers using Natural Capital Accounts, compiled according to the SEEA, benefit from the consistent, comparable and comprehensive statistics and indicators it provides. The SEEA brings into direct focus the relationship between the environment and well-being not revealed through traditional measures of economic activity, such as GDP. The SEEA does not propose or recommend any single indicator or basket of indicators for use in developing and assessing policy. Indeed, one of its major strengths is its flexibility to serve multiple purposes and multiple scales of analysis.

Better Data leads to Better Decisions

Exclusion of natural assets from national wealth measures leads to the situation in which resources can be depleted or degraded without recording of any impact on future income potential – that is, on sustainability. A nation could, in theory, deplete its natural resource base entirely – losing the associated income-earning potential in the process (not to mention the loss of natural heritage) – without the loss appearing in its statistics. Clearly, statistics do not provide appropriate signals when such a loss is allowed to go unmeasured. Without knowledge of how natural wealth is evolving, it is not possible to be sure whether income enjoyed today is sustainable. Tracking Natural Capital Accounts would help the Government and the public know whether we are getting the most out of our natural assets while not endangering sustainability.

Conclusion

There has never been a better time for governments to consider implementing Natural Capital Accounts. Leading global agencies have largely agreed on the international guidelines for NCA, citizens are calling for a balance between environmental protection

and economic growth and financial pressures mean that every government is looking for ways to become more efficient. Ultimately, our recommendation to the Government of Canada emphasizes the need to **understand the value we get from natural capital**. Many sectors in Canada's economy rely either directly or indirectly on natural capital. Wise use of this capital is one way to increase Canada's productivity performance. Yet, Statistics Canada does not include natural capital in its measures of multifactor productivity, partly because of gaps in the data needed to do so. A full set of NCA would permit natural capital's contribution to the economy to be properly measured – and managed. More broadly, implementing these recommendations could lead to pivotal progress towards making Canadian businesses and communities more productive and competitive. Benefits could include, among others:

Building Canada's global reputation as an environmental leader. The Government of Canada has taken many laudable actions on climate change. Pioneering the UN SEEA would solidify Canada as a leader in the global community.

Minimizing financial risk and uncertainty. With robust and accessible environmental data, businesses and communities will understand their operational and financial dependencies on natural capital.

Facilitating economic growth through green infrastructure. Collecting data on natural resources could support the identification of key green infrastructure opportunities and ensure that it is meeting the needs of the communities and businesses that use it. Understanding the economic value green infrastructure provides could further support businesses to identify and protect this competitive advantage.

Supporting open-data efforts. Allowing access to environmental data would encourage businesses and communities to use the data for innovative approaches and support them to improve their own decision-making capacities.

Thank you for the opportunity to provide input to the 2018 Pre-Budget Consultation. Should it be helpful to the Committee, we would be pleased to provide an oral testimony to further elaborate on our recommendations.

[1] See Chapter 3 of Commissioner of the Environment and Sustainable Development, 2000, *Fall Report of the Commissioner of the Environment and Sustainable Development 2009*. Available at <https://goo.gl/8LExVt>