



# The Case for Environmental Profit and Loss Accounting

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Natural capital is the land, air, water, living organisms and all formations of the Earth's biosphere that provide life supporting ecosystem goods and services and vital input to business activities. Yet, as many of these goods and services belong to the commons, the lack of a price signal allows the conversion of natural capital for free, to provide food, fibre, fodder and fuel. When prices do not reflect the true social and environmental costs of such uses, the costs or benefits to society of doing business are not reflected in corporate decision-making, share prices or profit and loss statements.

Pricing natural capital provides the basis for Environmental Profit and Loss accounting (EP&L). EP&L involves defining, quantifying and valuing environmental and health impacts of business operations along the supply chain. Supply chains have become increasingly global and accounting for complex impacts represents a new challenge. Nonetheless, the potential benefits from E P&L accounting are multiple.

For the private sector, E P&L permits companies to value and understand the nature of their environmental impact throughout the supply chain. EP&L provides an early view of emerging risks and hereby help companies stay competitive in the context of potentially increasing resource scarcity, tightening environmental regulations and changing consumer preferences. By enhancing transparency with respect to the environmental impact of business operations, EP&L also provides a basis for meaningful and evidence-based engagement with stakeholders.

From a societal perspective, halting deforestation, improving agricultural productivity, restoring degraded lands and reducing the rate of loss of biodiversity, will require financing at the scale of hundreds of billions USD (Parker et al., 2011). The necessary financial resources need to come from both public and private sources. The transition to a more sustainable economy will depend on progress in sustainable production and consumption of key commodities and this requires increased accountability for impacts on nature from companies and financial institutions.

IUCN has been working on economic valuation of nature for many years and has more recently become involved in corporate ecosystem valuation. In an effort to scale up valuation efforts and impacts, efforts will soon include EP&L accounting. Valuing natural capital is embodied in IUCN's 2013-2016 programme, which calls for greater integration of biodiversity values in the economy and proposes the deployment of "nature based solutions" as tools to harness both public and private sources of funding for biodiversity.

EP&L accounting is a first step in the process of ensuring that prices reflect the use of environmental goods and services and that full cost prices induce economy-wide shifts in corporate and consumer behaviour so that we may preserve or enhance rather than deplete our natural capital base. Efficient and sustainable resource use relies on the correct valuation and pricing of natural capital, i.e. that natural capital is priced according to its value to society.

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