BC Chamber of Commerce

NATURAL ASSETS: STATUS REPORT ON GIVING A DOLLAR VALUE TO FORESTS, GREEN SPACES AND WETLANDS TO GROW CANADIAN BUSINESS (2024)

Issue

One of the pressing threats facing Canada and the world is the degradation of nature, exacerbated by climate change. The emerging ecological disaster is partnered with a destabilizing global economy, post-pandemic inflation, and gaping inequality. Canada can buffer these effects by taking advantage of its vast natural assets. This would ensure that nature is elevated to a position of core importance in business models and that its value is appropriately accounted for. Businesses would benefit from new accounting standards recognizing these changes and join global organizations in this advance.

Background

In 2021, the BC Chamber adopted the original iteration of this policy.[1] Adoption by the Canadian Chamber followed in 2022.[2] Significant progress has been made in the interim in some, but not areas, which is noted below.

First, to reiterate the problem and rationale for this update, we submit the following.

Investing in green infrastructure creates jobs, perhaps five more jobs per $1 million than traditional projects.[3] One UBC study looked at economic incentives in water management, the incentives and motivators that drive water use, and identified water uses that generate the greatest value to society.

Called *Applied Environmental Economics*, the science measures the value of environmental assets that are not traded.[4] A goal is designing policy instruments that reward environmental stewardship, while balancing the costs and benefits of alternative policies that impact the environment.

In 2021, our original policy pointed out that Infrastructure valuation is big business in Canada. But where do wetlands, green spaces and forests fit on those balance sheets? Increasingly, businesses and economists want to see these assets move from the tourism column as attractants for visitors to the country's economic assets column.

The Insurance Bureau of Canada now incorporates the total economic value of natural assets, highlighting, for example, the value wetlands offer in disaster-cost reduction for flood-prone communities.[5] There is a lack of certainty in the processes used and accountability for issues.

Factors that shape the context for natural infrastructure in BC reflect a dominant worldview of nature as property. This is entrenched in BC laws, where nature has no standing and property rights do not include obligations to protect and enhance services from nature. This contrasts with Indigenous worldviews, which generally hold everything as related and equally important as human beings.[6]

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[1] https://bcchamber-website.glueup.com/policy-search/natural-assets-giving-dollar-value-forests-green-spaces-and-wetlands-government

[2] https://chamber.ca/wp-content/uploads/2022/11/2022-Policy-Resolutions.pdf

[3] A study by Business Roundtable suggests that over a timeline of 20 years, there is an additional US$3.7 injected into the economy for every US$1 invested in infrastructure. KPMG https://kpmg.com/xx/en/home/insights/2020/06/covid-19-recovery.html

[4] "Drought Impacts, Irrigator Attitudes, and the Potential for Water Trading in the Okanagan" Janmaat, J., https://www.castanet.net/news/Vernon/326353/Okanagan-Basin-Water-Board-seeks-answers-on-commodification-of-resource

[5] Intact Centre on Climate Adaptation: study on Southern Ontario wetlands, reducing damage to the Grand River watershed by $50million in severe weather events. *Op. cit.*

[6] Page 4, Natural Asset Infrastructure in British Columbia: Barriers and Opportunities, https://mnai.ca/media/2023/02/BC-Barriers-Report-FINAL-3.pdf Published by Natural Assets Initiative

What is a Natural Resource?

- A resource can generate economic benefits and/or service potential.
- A resource is naturally occurring. It came into existence without the actions of humankind.
- A resource is in a 'natural state,' not subject to human intervention.

Public sector entities in Canada initially led the process of natural asset valuation. The non-profit National Asset Initiative now plays a key role. Businesses and investors are taking note due to evolving ESG (Environmental, Social, Governance) criteria used to screen investments based on corporate policies. Investors increasingly apply these non-financial factors[7] as part of their analysis process to identify material risks and growth opportunities.

Across the country, natural assets provide substantial and perpetual valued economic benefits in mitigating the growing costs of extreme-weather disasters, particularly flooding. Naturally occurring ponds in Gibsons, BC, provide up to $4 million in storm-water storage benefits; a restored wetland in Manitoba provides a $3.7 million value in reducing floods, improving water quality and sequestering carbon; protecting four wetlands in New Brunswick delivers $1.4 million in reduced flood-damage benefits for Moncton; and wetlands provide a $49.8 million benefit to Quebec City for their ability to manage rainwater and reduce flooding. If these natural powerhouses didn't exist, we would have to build grey infrastructure at a considerable cost to contain the damage they mitigate for free.[8]

Growth in client business is an anticipated outcome of the shift in accounting standards. Both public and private sector firms are rapidly demonstrating the need and the growth.

General principles around valuing natural assets focus on the following:

- Subsoil resources
- Water
- Living resources

Recognizing a Natural Resource as an Asset

To work for business, this recognition must be demonstrated on an organization's GPFS – general purpose financial statements. To be recognized, a natural resource must meet the definition of an asset and be measurable for the GPFS.

The International Federation of Accountants published a new 'Strategy and Work Program 2024-2028'[9] leading a new proposed International Public Sector Accounting Standard on natural resources, along with general requirements for disclosure of sustainability-related financial information. If adopted, this will be a step forward.

There remains a problem with leadership at the government level, as natural assets currently fall outside of traditional accounting frameworks. Accounting efforts are constrained to narrow examples dictated by ownership and control, falling short of what is actually required.

Assets not meeting the recognition test are unlikely to be classified as assets, with downstream implications for company value, stock value and insurability. Appropriate bases of measurement must be established once an item is recognized as an asset. Businesses and public sector entities must:

- Record the specific natural resource description
- Account for activities related to each

[7] https://policyoptions.irpp.org/magazines/october-2023/value-natural-assets-properly/; https://www.cpacanada.ca/business-and-accounting-resources/financial-and-non-financial-reporting/sustainability-environmental-and-social-reporting/publications/valuing-natural-capital
[8] https://www.theglobeandmail.com/business/commentary/article-its-time-to-reveal-the-hidden-value-ofcanadas-natural-assets/
[9] 9 Intact Centre on Climate Adaptation: study on Southern Ontario wetlands, reducing damage to the Grand River watershed by $50million in severe weather events. https://www.intactcentreclimateadaptation.ca/wp-content/uploads/2018/09/WetlandsROI-Infographic-FINAL.pdf

- Apply asset recognition criteria
- Measure considerations specific to each resource
- Disclose considerations

Guidance and common practices on accounting activities relating to subsoil resources, such as minerals (including petroleum) and water, have already been developed.

Numerous Canadian municipalities began shifting to natural asset valuation criteria. They are measuring, valuing, investing in, and managing forests, wetlands, and foreshores for municipal service-delivery benefits, such as stormwater management, drinking water filtration, and coastal zone protection.

This pattern can be transferred to business once accepted accounting standards are agreed upon and insurability and valuation are codified. Natural infrastructure assets play a role in climate resilience, and their contributions can be quantified in dollars and cents. [10] In 2016, a framework was established by the Intact Centre on Climate Adaptation (University of Waterloo), the Insurance Bureau of Canada and the International Institute for Sustainable Development to help assess this contribution. Recent statistics suggest that the loss of natural infrastructure in Canada is already a pressing problem. In southern Ontario, an estimated 72% of the original wetlands have been lost to development (e.g., agriculture, urban sprawl and other land conversion). In Alberta, approximately 64% of the original wetlands in settled areas no longer exist. In BC, more than 70% of the original wetlands have disappeared in the lower Fraser Valley and parts of Vancouver Island, and an 85% wetland loss has been documented in the South Okanagan.[11]

Currently, public sector financial statements do not recognize natural infrastructure as assets. This practice will change once the prohibition in the CPA Canada Public Sector Accounting Handbook (Financial Statement Concepts, Section PS 1000, Paragraph 57) is modified.

Not only does this exclusion result in conservative financial reporting, but also means financial statement users cannot know the extent or value of natural infrastructure assets and how they contribute to an entity's future ability to provide services. Financial statement users have no transparency concerning potential changes in the value of natural assets, and responsible investors have no reliable measures.

If a business or municipality has natural resources, such as wetlands, forests, and ponds, it is prohibited from reflecting those as assets on its financial statements. The municipality is also not required to report in its financial statements whether those natural resources have been damaged by pollution or natural disasters—this lack of transparency results in lower accountability for safeguarding natural resources.[12]

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[10] As Canada advances its climate commitments made under the Paris Agreement, the United Nations' Sendai Framework for Disaster Risk Reduction, and the Pan-Canadian Framework on Clean Growth and Climate Change, it needs to revise its accounting rules to enable public sector entities to use natural infrastructure for climate change mitigation and adaptation. If it does not change its internal accounting rules, Canada's natural assets will continue to degrade and disappear – and the costs of climate catastrophes will continue to climb.

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The econometrics of this challenge are becoming better known, and an example in addition to the above would include carbon sequestration—the ability of nature to capture carbon dioxide in the atmosphere — which slows down the rate of climate change, again demonstrating its impact on Canadian businesses.

Many businesses continue to see green initiatives as corporate social responsibility rather than central financial operations. This confuses investors.

There is a strong interest in getting Canadian governments, private companies and standards bodies on the same accounting page as many international firms through the work of the Capitals Coalition.[13] A series of roundtables in Ottawa and Toronto are ongoing so stakeholders can share information and best practices. This will allow more regular information sharing and help Canada to be represented in the work of the Capitals Coalition globally.

<u>New Reporting</u>

New reporting could include:

- New/updated Canadian accounting standards to measure and value natural resources
- Update regulations to balance environmental profit and loss against actual profit and loss
- Re-allocation of capital to incentivize investors to redirect investments in green-aware companies
- Working closely with the Capitals Coalition in the Impact Management Project, helping investors measure and report the impacts of their investments.

Ecological habitat and water have implications for business, industry, commercial, residential and personal property and welfare. Who is entitled to use water, at what proportions, and how land is valued and accounted for remains under study. Many regulations, federally and provincially, protect and identify those values. This ask is straightforward: appreciate and evaluate the wealth of natural assets. The practicality of this question is complex and has implications for the country's future economic health in both the private and the public sectors.

THE CHAMBER RECOMMENDS

That the Provincial Government:

1. Establish practical guidelines and national standards for inventory, management, and valuation of local government natural assets.
2. Allow for the inclusion/representation of natural assets in public sector financial statements.
3. Establish accountabilities within the context of Ministerial mandate letters, with an obligation for several Ministers to collaborate to achieve results.

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its internal accounting rules, Canada's natural assets will continue to degrade and disappear – and the costs of climate catastrophes will continue to climb.

[13] The Capitals Coalition is a global group – encompassing many larger companies, governments, international organizations and standards bodies – that shares knowledge from around the world, establishes global standards and advocates to convince the various players to synchronize their efforts. It has also developed a series of protocols that combine current thinking from different organizations. https://capitalscoalition.org/canadian-cities-are-counting-on-nature-its-paying-off/ October 21, 2017