

Policy Statement

Standing for trust and integrity

January 2009

Sustainability

Cost Internalisation

FEE (Fédération des Experts comptables Européens – Federation of European Accountants) wishes to share its strategy on sustainability in the form of a series of policy statements⁽¹⁾ on core issues in relation to sustainability and the accountancy profession. FEE acknowledges that the urgent nature of the challenge of sustainability is becoming widely recognised. At the level of the organisation, accountants, whether in business, the public sector or within the world of professional practice, must rise to the challenge of sustainability which touches on many areas of traditional competencies.

About FEE

FEE represents 43 professional institutes of accountants and auditors from 32 European countries, including all 27 EU Member States. In representing the European accountancy profession, FEE recognises the public interest. It has a combined membership of more than 500.000 professional accountants, working in different capacities in public practice, business, government and education, who all contribute to a more efficient, transparent, and sustainable European economy.

Largely because they have been consistently omitted from or not recognised by the pricing mechanism, some aspects of economic activity may have distorted the efficient allocation of investment capital by financial markets and hindered a proper interpretation of organisational performance. The impacts of such negative externalities are becoming increasingly apparent. Such systematic under (or mis-) pricing is argued by many – including the authors of the influential Stern Report on Climate Change (UK 2006) – to have contributed to the “greatest market failure ever” which lies at the heart of the current debate on climate change.

Examples (and consequences) of negative social and environmental externalities include:

- Atmospheric pollution (leading to phenomena such as acid rain and ozone depletion, as well as climate change and resulting desertification)
- Exploitation (and commercial use) of non-regenerating natural assets (such as aggregates, fossil fuels and agricultural land used for landfill)
- Unsustainable management of theoretically regenerative natural assets (such as fish stocks and the tropical rain forest (deforestation)).

The internalisation of negative externalities is most often addressed through the taxation system (so-called “green taxes”), through the imposition of quotas or through cap and trade auction schemes. By influencing the design of such instruments; by ensuring that their implications are understood (and acted upon) at the corporate strategic level; and by ensuring that accountants – particularly professional accountants in business and those charged with governance and risk responsibilities – are familiar with the concept and operation of such instruments, the accountancy profession can play an important role in getting prices right, thus providing the foundation for

effective market-wide resource allocation. This requirement is a fundamental aspect of sustainable development.

FEE believes that the accountancy profession can make a decisive contribution to researching the feasibility and effectiveness of the various “cost internalisation” methodologies observed today and help in making the European Single Market work better.

⁽¹⁾ Other Policy Statements issued:

- The Contribution of the Accountancy Profession, January 2009
- Non-Financial Information, January 2009
- Multiple-Stakeholders: The Essence of Multidisciplinary Teams, January 2009

