Eurostat Task Force on the revision of SNA 93 – Non-Financial Accounts
15/16 September 2004 in Luxembourg

Final Minutes

Introduction

1. This was the first meeting of the Eurostat Task Force on the revision of SNA 93 with respect to *non*-financial accounts. The meeting was organised by Eurostat unit C1. A Task Force meeting on revision issues for the *financial* accounts was held in parallel on 15 September and organised by Eurostat unit C3.

2. The purpose of the Task Force is threefold: first, to raise among EU Member States the awareness on the proposals for revising the SNA 93, second, to draw on the expertise of EU countries to discuss and clarify issues, and third, once an issue is clear, to see if there is an emerging consensus among EU Member States.

3. For this first Task Force meeting Eurostat had proposed to discuss four major revision issues (R&D, cost of capital services in the production account, government owned assets, contracts and leases of assets) and six other issues (cost of ownership transfer, military expenditures, originals and copies, databases, mineral exploration, land). The Task Force accepted this agenda. Background documents on these issues and a copy of the powerpoint presentation used during the Task Force meeting can be found on Eurostat´s Circa site:
http://forum.europa.eu.int/Public/irc/dsis/pnb/library?l=/national_accounts&vm=detailed&sb=Title

4. Eurostat is also a member of the Advisory Expert Group on National Accounts (AEG) and will report to the AEG the discussions of the Member States on the revision issues.

Note from Germany on the clarification of principles for the revision of SNA

5. The Task Force first discussed a note from Germany which contained proposals for a more precise interpretation of the principles for the revision of SNA which say that the revision should not lead to fundamental changes in SNA and that implementation aspects should be taken into account when deciding on a change of SNA. Germany argued that since a revised SNA will lead to a revised (and for the Member States compulsory) ESA, the methodological changes decided in the revision will have an impact on national accounts figures used for EU policy purposes. Any changes to the SNA concepts should therefore not have a significant impact on the level of key indicators, should not be exclusively model based and imputed, should be accepted by users and useful for practical and policy purposes and should be first tested in satellite accounts if difficult and problematic. Resource problems in national statistical institutes and implementation costs should also be taken into account.

6. Eurostat responded that it is conscious of the issue and agreed with some of the points made by Germany. However, it felt that the German proposal was too strict and that it would in fact hardly allow any change at all to the present SNA. One country fully supported the German position, but the other participants responding to this issue, while expressing certain sympathy for the note, also considered the proposal as being too restrictive. The proposal to test big changes in satellite accounts before incorporating them in the core system was largely met with some scepticism. Most people felt that too few countries actually bother to do satellite accounts and that this approach would easily lead to a postponement of an issue. One participant proposed to learn from the lessons of capitalizing software in SNA 93 and to work

out clear implementation guidelines before introducing a change such as the capitalization of R&D in the accounts.

7. The chairman concluded that there did not seem to be fundamental differences between participants, but rather differences in degree. The tension between practicability and measurability on the one side and theoretical concepts and model based imputations has always been a part of national accounts. When deciding on a revision item one should perhaps look at it on a case by case basis instead of mechanically applying a long set of strict criteria. One should also take into account that the AEG has so far tended to be rather prudent in its decisions.

Report on the Canberra II meeting in London on 1-3 September

8. Almost half of the issues under discussion for the revision of SNA fall into the responsibility of the Canberra II group on the measurement of non-financial assets. Eurostat presented a brief overview of the outcome of the latest Canberra II meeting in September in London. The draft decisions and actions of that meeting were prepared by the OECD and handed out at the beginning of the Task Force meeting.

Research and development

9. The capitalisation of R&D would potentially be one of the biggest changes of SNA. On terminology, it was pointed out during the discussion that when talking of "capitalising R&D expenditures" one should keep in mind that this is actually not a correct description of the phenomenon to be measured. R&D is an activity. Expenditures on R&D lead to the creation of new knowledge from which benefits can be derived in future periods. The outcome of R&D expenditures would therefore be better described by using the term "knowledge asset".

10. Some participants were strictly opposed to capitalising the outcome of R&D. Among the arguments against were the following: Capitalising R&D would be a fundamental change of the SNA which is not covered by the guiding principles of the revision. Practical problems such as delineation issues and availability of source data are not yet sufficiently resolved to allow comparable R&D estimates across countries. If one would capitalise the outcome of R&D one would also need to capitalise human capital in order to stay consistent. Expenditures on R&D are already reflected in the value of improved assets which are already counted in the system. If, despite these objections, one would want to show the effects of R&D in national accounts, one should do so in satellite accounts and not in the core system.

11. A majority of participants expressed their support for capitalising R&D in principle. Arguments made in favour were the following: R&D spending leads to the creation of a knowledge asset which produces benefits in future periods; in that sense it is similar to other assets which are already counted in the system. R&D is also one of the driving forces of growth in many economies; including it in the accounts as an asset would serve important analytical purposes. Relegating R&D to satellite accounts would in reality mean that many countries would not undertake estimates and see it as a secondary priority. There would be risk that the system would become outdated if R&D were not included. Test calculations in several countries seem to show that data problems and practical problems can be overcome. The data situation on R&D has improved significantly over the past years and might actually be better than for some of the aggregates already included in the present system. For improving the data situation, Canberra II has already initiated a co-operation with the NESTI-group to investigate the possibility of aligning the Frascati manual and R&D questionnaires with national accounts concepts.

12. While supporting the capitalisation of R&D in principle, several people had doubts about whether or not to include pure basic R&D, freely disseminated R&D or R&D undertaken by non-market producers. They felt that these types of R&D do not result in something that would fit the general definition of an asset, namely because no ownership rights could be effectively exercised once the results of the research have been disseminated and because the originator of the R&D would not profit from the economic benefits derived from the results of the research. Supporters of including basic and non-market research replied that ownership over public assets such as roads are also not enforced and that they are nevertheless counted as an asset in the system. The argument for including research on things like dead languages was that this kind of research does lead to future benefits in the sense that it satisfies the curiosity of people interested in such things.

13. The discussion seemed to reflect the arguments for and against as discussed in Canberra II. The arguments in favour of capitalising a R&D asset mostly emphasised economic arguments whereas most arguments against highlighted practical issues and data problems. On balance, the majority of the Task Force participants favoured the capitalisation of (at least market) R&D. Eurostat will try to collect and make available to the Task Force data showing the importance of R&D expenditures across countries. The Task Force supported the idea of a closer coordination on practical measurement and feasibility issues surrounding R&D.

Cost of capital services in the production account

14. A majority of Canberra II proposes to introduce capital services in the accounts as an of-which-item for gross operating surplus and gross mixed income and thus make the system more useful for growth accounting and productivity analysis. This change should not change the basic structure of the accounts and be voluntary. Capital services should be measured in a framework that is integrated and consistent with estimates of capital stock and consumption of fixed capital.

15. Most Task Force participants voiced several reservations about the current proposal. Most participants supported the idea that, if recorded, capital services should be a voluntary item in the accounts, but some questioned if the core system should include data produced much more from modelling than from reporting. Some also argued that the Canberra II proposal reflects only one approach of looking at productivity in general and capital services in particular. There are other schools of economic theory which would measure it differently. The system should therefore not be prescriptive about this issue. In addition, some doubts were expressed about unresolved conceptual and measurement issues, e.g. which assets to include and which rate of return to choose.

16. The Task Force noted the current state-of-play of this issue, but seemed to be more reserved than the Canberra II group. The issue will not be presented for decision by the AEG in November 2004, but next year. Until then the issue will be further discussed and sorted out by Canberra II.

Return on capital on government-owned assets

17. Most of the participants speaking on this issue expressed reservations about including a return on capital on assets used in non-market production. Some people argued that this would mark a change in philosophy of the present SNA and that it would be difficult to explain to users the deviation from the current convention that non-market output is measured by the sum of costs. Others wondered if this change would have implications on the present

borderline for distinguishing market from non-market producers. Questions were also raised about the technical aspects of measuring capital services for non-market assets, e.g. which assets to include and what kind of rate of return to apply.

18. Those participants in favour of the proposed change argued that the SNA 93 was already very close to include a mark-up in output of non-market producers to account for a return on capital of their assets. The proposed change would eliminate the present anomaly in the system, where assets used by non-market producers have a zero rate of return, whereas assets used by market producers do have a rate of return, even if the asset is of the same kind. The actual calculation would be no more difficult than the present calculations for consumption of fixed capital of non-market assets, since the estimates could be derived from the same model.

Contracts and leases of assets

19. The Task Force discussion on contracts and leases reflected the current lack of clarity of discussion of this issue in the Canberra II group. The main issue is if contracts leases and licences relating to different types of assets should be treated as assets themselves, and if yes, in what circumstances and how. Some participants had problems understanding how a contract could become an asset itself. Others agreed that a contract could in principle become an asset, but were unclear as to under which circumstances and as to which types of underlying asset this would apply.

20. There was also some confusion about the mechanics of the different options discussed so far in Canberra II for treating leases. Some said that they found the discussions rather theoretical and that the issue probably does not have too many repercussions on reality. Others replied that this is a big issue which in some real-life cases, e.g. mobile phone licenses, do affect the national accounts compilers in a big way.

21. On balance, most Task Force members thought that the present SNA does need some cleaning up on contracts and leases, but that it is probably already close to the truth. Canberra II should become more focused and structured in its discussion of the issue.

Cost of ownership transfer

22. The AEG already accepted at its last meeting the proposal the cost of ownership transfer (COT) on the acquisition of an asset should be written off over the period during which the buyer of the asset is expected to hold the asset (instead of the entire life of the asset as in the present SNA). Some Task Force participants felt that it would be quite difficult to determine the expected length of ownership. One participant replied that in the case of buildings and structures, which account for most of COT anyway, it should actually be possible to determine average periods of ownership from administrative data.

23. On COT on disposal and installation costs there were some discussions on how to treat them in relation to the corresponding asset in the capital stock model. On terminal cost, participants supported the present proposal which would either have these costs written off over the life of the asset, or record them as GFCF when they occur and write them off as consumption of fixed capital immediately if they can not be predicted at the time the asset is bought. Most people thought that in practice accountants would use the latter solution. Altogether, there was no strong disagreement with the present proposals of Canberra II on this issue.

Military expenditures

24. Most participants were in favour of the proposed change which would treat military weapons systems as GFCF in the account. One notable exception was Germany which is against this change. Some participants expect difficulties to measure military weapons systems due to restricted data. Others argued that the change would actually make it easier to account for military assets since it would abolish the present and difficult to measure distinction between military assets with a possible civilian use and pure weapons systems.

Originals and copies

25. Canberra II had agreed that both originals and copies should be treated as assets, and that this proposal should be submitted to the AEG for its November 2004 meeting. The Task Force participant from the UK thinks that this treatment is wrong. In his view, only the original is an asset, whereas the use of the original should be recorded as a rental. The present Canberra II proposal could produce inconsistencies between the treatment of software and licences. The door on this issue should not be closed until the discussions on leases and licences are resolved. One other participant supported the UK and said that the present proposal would introduce double counting assets. The other participants did not share this view and many argued that the current proposal is correct.

Databases

26. The Task Force took note of the Canberra II proposal to capitalise all databases which meet the asset criterion. The proposal will be submitted for decision at the November 2004 meeting of the AEG. Some participants expressed doubts about the practical possibilities of identifying, measuring and valuing all databases. They would have preferred to only include databases which are sold or capitalised by businesses in their accounts.

Mineral exploration

27. The Task Force took note of the Canberra II proposals on mineral exploration which will be submitted for decision at the November 2004 meeting of the AEG. The question of whether or not the subsoil resource should be partitioned between the balance sheets of the extractor and the owner of the asset has not yet been agreed by Canberra II. The Task Force briefly discussed this issue without arriving at a clear opinion.

Land

28. The Task Force took note of the Canberra II proposal on land improvements which will be submitted for decision at the November 2004 meeting of the AEG.

Conclusions of the meeting

29. While it was too early to reach any firm conclusions or take votes on individual items it was felt that this first Task Force meeting helped to clarify many of the issues and that it would be useful to continue with the Task Force.

30. Eurostat will present the results of this meeting to the National Accounts Working Group (NAWG) in November. A next meeting of the Task Force has been tentatively scheduled for the middle of May 2005, shortly after the next meeting of Canberra II in the

middle of April 2005. Eurostat will also try to reserve a large block of time at the March 2005 meeting of the NAWG to discuss SNA revision issues.

31. Topics to be discussed at future meetings should not only include Canberra II items but also national accounts implications of revision issues which fall in the responsibility of the Balance of Payments Group and the Task Force on the Harmonisation of Public Sector Accounts. The Task Force will also consider to discuss implementation issues, for instance with respect to measuring R&D.

32. The representative from the OECD reminded participants of the possibility to directly participate in the discussions of Canberra II and to contribute comments to current written consultations on certain issues.

List of participants

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Tim Van Waeyenberge	National Bank of Belgium	Belgium
Zuzana Stara	Statistical Office	Czech Republic
Ole Berner	Statistics Denmark	Denmark
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Christoph Maier	Eurostat	
Anton Steurer	Eurostat	
Joachim Recktenwald	Eurostat	
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