

Section 5.5.5. We are pleased to see that SEEA is moving towards the proposal in the Canadian System of National Accounts for the allocation of natural resources. However, we think that *allocation* is a much better word than *ownership*. Resources are a special case of ownership in SNA08.

Para 217: We find the attempt at distinction between GOVT and users in this paragraph on the basis of legal framework is not particularly helpful. The existence of a contract means that users are also legal owners. We think the part “on behalf of a country” underlines the relationship.

Para 220: While the elements of proper treatment of natural resources are in SNA08, there is no coherent treatment. What the Canadian System of National Accounts has proposed in the current historical revision process with respect to sector allocation of resources is, in our view, fully consistent with SNA08.

Para 220 i) For the **asset stocks**, this is pretty good and follows the principles of SNA08.

Para 220 ii) For the **flows** depletion and primary income this is not at all what SNA08 says. In national accounting, depletion charges in book profits are adjusted, since the exhaustion of natural resources is not regarded as a charge against GNI (or the sub-component corporate profits/surplus). Depletion is a volume change. Also refer to SNA08 10.180 and 12.26.

It is not clear from the text what SEEA is trying to do for **flows**:

- Match SNA08 (in which case this section is not correct); or,
- Develop a new SEEA environmental approach that is distinct from SNA08?

We suggest the following edits to the section:

### **5.5.5 Other issues in the measurement of mineral and energy resources**

#### *Accounting for the sector allocation of mineral and energy resources*

As an opening principle, it is difficult to envisage partitioning a natural asset. Natural assets are country endowments that exist at the national level. That said these assets generate income for economic agents in the economy and should be reflected among sector assets. One approach to this is to view the sector assets as intangible asset claims on the natural resources. This section outlines this treatment.

A general characteristic of mineral and energy resources is that they are typically owned by general government, as part of the constitutional framework, on behalf of a country. This is to a very large extent a stewardship role with the natural resource assets held “in trust” for the nation; and, as a result, governments rarely disclose or recognize these assets in their financial statements. This constitutional legal framework also gives rise to a range of permits and leases to access resources.

- At the other end of the spectrum, natural resource assets are commonly extracted for profit by either private corporations or market based public corporations. The right to extract resources is typically enshrined in a resources lease arrangement, or a contract. Such a contract, also gives the corporations a specified legal claim on the natural resources.
- Given this somewhat convoluted set-up for these types of assets, with two parties having legal claims to the natural resources, governments are often referred to as legal

owners/managers and corporations are usually referred to as the economic owners. As a consequence of this legal framework there is usually a difference drawn in the international standards between the recognised owner of the resource and economic user and extractor of the resource. SNA08 puts the emphasis on economic ownership, though is less clear in the case of natural resources.

- Notably, both parties generate income from the natural resources, with the corporations as economic owners undertaking the risk and claiming the larger of part rent in return. The government typically recovers a portion of the resource rent, in relation to their stewardship role, out of the total benefits earned by the extractor. Commonly, some of the rent (often referred to as royalties) is payable by the extractor to the government calculated based on the amount of resource extracted. Rent may also be recovered through various income tax arrangements or other mechanisms.
- The existence of government property income suggests that there should be a corresponding asset accounted for in the government sector. Likewise there should also be an asset value assigned to the corporate sector, since resource leases are both an income generating and often a tradable asset. Where there is particular relevance in considering mineral and energy resources from an institutional sector perspective there may be interest in clearly articulating the relevant intangible assets and net worth positions of each sector and showing the complete sequence of accounting entries in the relevant accounts.

Unfortunately, the 2008 SNA does not present a coherent approach to sectoring natural resources, though the fundamental principles are sound. SEEA is taking an approach that fits with these principles, but taking a step further towards an integrated approach to resource assets. However, SEEA differs from SNA08 on the treatment of income and depletion associated with natural resources.

The following are the key elements of the treatment in the SEEA.

#### STOCKS

- i. The value of the mineral and energy resource should be split between the two owners based on their share of the future stream of resource rent. These assets are viewed as intangible assets. In particular, these are the current value of resources rights/leases in the case of corporations. The intangible asset of the government represents the portion of income accruing and should be based on the expected stream of payments of rent (royalties, special taxes, etc) by the extractor to the government.

#### FLOWS

In national accounting depletion charges in book profits are adjusted, since the exhaustion of natural resources is not regarded as a charge against Gross National Income and depletion is treated as a volume change (SNA08 10.180 and 12.26). In SEEA, the focus is on [depletion-adjusted income measures](#).