WS.6 Accounting for the Economic Ownership and Depletion of Natural Resources

Consultation of GFS Community on AEG recommendations.

We would appreciate your input and views on the recommendations for the accounting of economic ownership and depletion of natural resources. These recommendations have been made in the context of the preparation of new guidance under the auspices of the ongoing work Towards the 2025 SNA.

Introduction

The Advisory Expert Group on National Accounts (AEG) has been considering proposals to introduce in the 2025 System of National Accounts: (i) depletion accounting for natural resources, and (ii) a split-asset approach where the economic ownership of natural resources is split between the user/extractor and the legal owner of the natural resource (where different).

These proposals have been discussed extensively during the last few years (see timeline below) and following consultation and testing, the AEG has arrived at several recommendations based on the guidance note (see recommendations below). However, the AEG emphasized at its most recent meeting the importance of consulting the SEEA community (and Government Finance Statistics (GFS) community) on the exact recording of the split-asset approach. Accordingly, we would like to consult with UNCEEA members on this issue. The outcome of this consultation will be shared with the AEG at their next meeting in July 2023.

Background - timeline

October 2020	Initial guidance note discussed at the 14th meeting of the AEG.
July - September 2021	Global consultation on draft guidance note.
November 2021	Consultation responses discussed at the 17th meeting of the AEG.
April 2022	GFS reservations with proposed treatment, and alternative “right-to-use” permit approach, discussed at the 19th meeting of the AEG.
February 2023	Testing on splitting of natural resource assets concluded.
March 2023	Results of testing discussed at the 22nd meeting of the AEG.

Recommendations
Based on the guidance note, the AEG has recommended the following:
1. Depletion of natural resources is to be recorded as a cost of production, in a similar way to the current treatment of consumption of fixed capital.
2. The results from the testing of the "split-asset approach" clearly show that the total resource rent from natural resources is shared between the legal owner (usually the government) and the extractor, highlighting a shared economic ownership of the relevant resources.
3. The resource rent is to be calculated using the methodology described in Table 5.5 of the SEEA Central Framework (see Annex below).
4. The initial appearance and/or ownership changes of natural resource assets to be recorded as other changes in the volume of assets (other economic flows) and not capital transfers.

The guidance note is available here.

Principal Implications for GFS Balancing Items
In most countries, natural resources are considered to be "owned" by the State on behalf of society. Therefore, where a full GFS balance sheet is compiled for general government, it will typically include natural resources, such as mineral and energy resources. However, the extraction or use of these natural resources is undertaken by either public or private corporations.
Implementation of the split-asset approach may lead to some of the natural resource assets being recognized on the balance sheets of the extractive corporations (depending on the terms of the extraction license) thereby a reduction in general government's net worth although there is no direct impact on government's net financial worth or net lending / net borrowing. In addition, since the change in ownership of the resources is recommended to be considered as another change in volume of assets, there will be no impact on government's net operating balance (defined as revenue less expense).
The recommended introduction of depletion accounting will result in depletion being recorded as both an expense in the government accounts and as a (negative) element in the net investment in nonfinancial assets (specifically, natural resources). This means that there would be no impact on government's net lending / net borrowing but there would be a reduction in the government's net operating balance. Of course, the depletion would only be recorded in relation to the natural resource assets held on the government's balance sheet, and not those included under the split-asset approach on the balance sheet of the corporations' sector.

Instructions
For each question, please provide the answer by checking the relevant checkbox(es) and by typing in the framed textboxes, which will automatically expand to fit the text.
A printable version of the questionnaire is available for your convenience.
If you have any questions, please contact sta-gfsac@imf.org or sna@un.org.

Sincerely,
GFS and SNA Secretariats

Annex: Resource Rent Calculation
It is recommended to calculate the resource rent using the methodology described in Table 5.5 of the SEEA Central Framework (below), which is further elaborated on in the guidance note.

Table 5.5
Relationships between different flows and income components

Output (sales of extracted environmental assets at basic prices, includes all subsidies on products, excludes taxes on products)
Less Operating costs
Intermediate consumption (input costs of goods and services at purchasers' prices, including taxes on products)
Compensation of employees (input costs for labour)
Other taxes on production plus other subsidies on production
Equals **Gross operating surplus—SNA basis**[a]
Less Specific subsidies on extraction
Plus Specific taxes on extraction
Equals **Gross operating surplus—for the derivation of resource rent**
Less **User costs of produced assets**
Consumption of fixed capital (depreciation) + return to produced assets
Equals **Resource rent**
Depletion + net return to environmental assets[b]

[a] Strictly speaking, this accounting identity also includes gross mixed income (the surplus earned by unincorporated enterprises) and should be adjusted for net taxes and subsidies on production. These details do not affect the logic of the explanation provided.

[b] In principle, the net return to environmental assets derived here also incorporates a return to other non-produced assets (e.g., marketing assets and brands), as these assets also play a role in generating the operating surplus. These returns are ignored in the formulation presented here.

Please provide your information below:
Country ____________________________________
Institution/Organization ____________________________________
Name* ____________________________________
Position ____________________________________
Email* ____________________________________

On Shared Economic Ownership of Natural Resources

Q1A. AEG recommends using the distribution of resource rents to partition natural resource assets (the "split-asset approach") and testing has shown that such a split is achievable. Do you agree with the adoption of this approach? (See summary of implications on GFS in the previous section).

- ❍ Yes
- ❍ No
- ❍ Unsure

Q1B. Please elaborate.

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This Question is Conditionally Hidden if: (Q1A = No)

Q2A. If you agree with the adoption of the split-asset approach (Q1A is Yes), do you agree with the AEG recommendation that the initial partitioning of assets, as well as subsequent ownership changes based on changes in resource rent distributions, should be reflected in the accounts as other volume changes and not capital transfers?

- ❍ Yes
- ❍ No
- ❍ Unsure

This Question is Conditionally Hidden if: (Q1A = No)

Q2B. Please elaborate.

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This Question is Conditionally Hidden if: (Q1A = Yes)

Q3A. If you don't agree with the adoption of the split-asset approach (Q1A is No), do you instead prefer the **"right-to-use"** permit approach which was proposed as an alternative during the 19th meeting of the AEG of April 2022?

- ❍ Yes
- ❍ No
- ❍ Unsure

This Question is Conditionally Hidden if: (Q1A = Yes)

Q3B. Please elaborate.

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Q4A. Do you agree that the share of the natural resource assets (or value of the "right-to-use" permit) be calculated based on observances over a long time period to mitigate the volatility in resource rent shares due to commodity prices and other factors? This would align with the method of valuing overall natural resource assets and was the approach followed during the testing.

- ❍ Yes
- ❍ No
- ❍ Unsure

Q4B. Please elaborate.

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Q5A. If the "split asset approach" (or "right-to-use" permit approach) is introduced, do you expect that the relative resource rents could be measured?

- ❍ Yes
- ❍ No
- ❍ Unsure

Q5B. Please elaborate.

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This Question is Conditionally Shown if: (Q5A = No)
Q5C. If No to Q5A, what are the main measurement challenges you anticipate?

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On depletion

Q6. The inclusion of depletion as a cost of production (in the 2025 System of National Accounts) has been endorsed. Please share any comments or observations you have on the introduction of depletion accounting and the implications for GFS.

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Q7. Please share any other comments you have on the proposed introduction of the "split asset approach" and/or accounting for depletion.

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Q8. In order to maximize transparency, we would like to publish responses to global consultations. Do you give consent that your response to this questionnaire can be published?

❍ Yes
❍ No