



Outcome of the GFS and SEEA consultation on WS.6 - Accounting for the Economic Ownership and Depletion of Natural Resources

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Update Team and the GN Drafting
Team

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Outline

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- Recommendations
- Questions



Background



Background

The Advisory Expert Group on National Accounts (AEG) has been considering proposals to introduce in the 2025 System of National Accounts:

- depletion accounting for natural resources in analogous way to consumption of fixed capital
- a split-asset approach where the economic ownership of natural resources is partitioned between the legal owner and the extractor of the natural resource.

While these issues primarily relate to GN WS.6 – Accounting for the Economic Ownership and Depletion of Natural Resources, they also affect GNs WS.8 – Accounting for Biological Resources, WS.9 – Valuation of Mineral and Energy Resources and WS.11 – Treatment of Renewable Energy Resources as Assets

Background

These proposals have been discussed extensively and following consultation and country testing, the AEG has arrived at several recommendations based on the guidance note, as follows:

- 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.
- The resource rent from the natural resource should be partitioned between the legal owner and the extractor and is to be calculated using the methodology described in Table 5.5 of the SEEA Central Framework.
- Natural resource assets should be partitioned, using the distribution of resource rents, on the corresponding balance sheets of governments and non-financial corporations (or any other sector) to give a more accurate reflection of the sectors' net worth.
- The appearance and disappearance, including ownership changes, of natural resources should be reflected as other changes in the volume of assets.

Before finalizing the recommendations, the AEG asked that the GFS and SEEA communities be consulted.



Results from the GFS/SEEA consultation questionnaire

A total of 24 respondents participated to the GFS/SEEA consultation questionnaire - WS.6 - Accounting for the Economic Ownership and Depletion of Natural Resources

- 22 responses were received from GFS respondents
- 2 responses were received from SEEA respondents
- The low SEEA response rate is attributed to the fact that the proposed treatment is consistent with the SEEA 2012 Central Framework

The questionnaire consisted of 8 questions that were grouped into 3 main categories:

- Shared Economic Ownership of Natural resources
- Depletion
- Other

On Shared Economic Ownership of Natural Resources

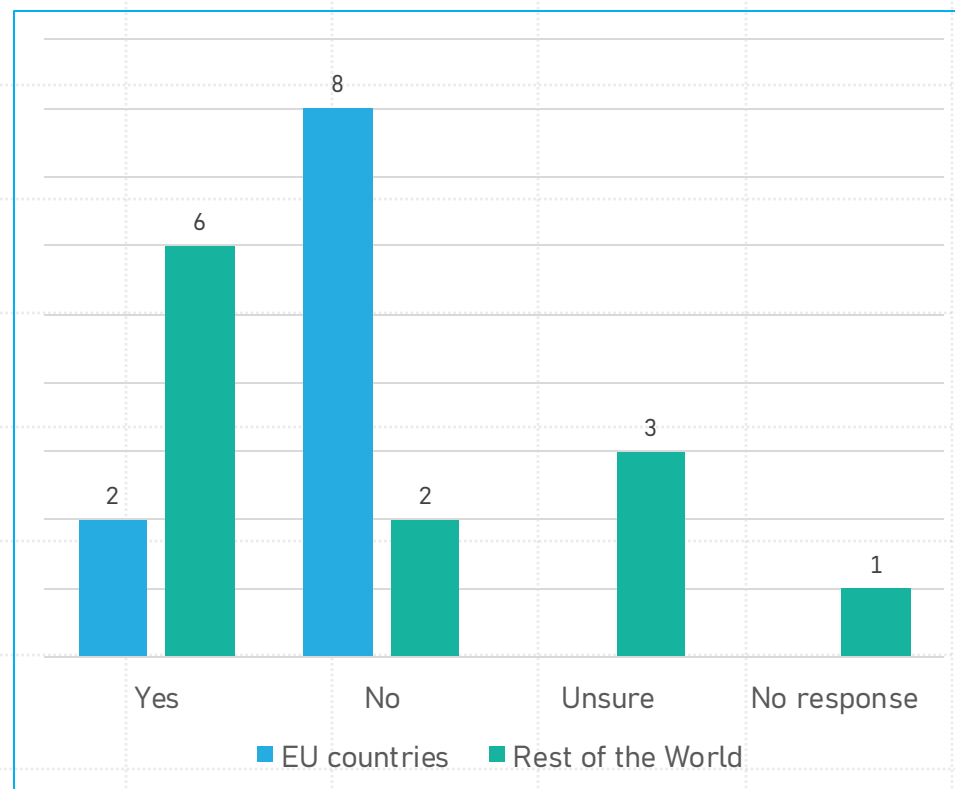
▲ AEG recommends using the distribution of resource rents to partition natural resource assets (the “split-asset approach”) and testing has shown that such a split is achievable. Do you agree with the adoption of this approach?

45 percent of GFS members did not agree with the distribution of resource rents to partition natural resources. On the contrary, the two SEEA respondents fully agreed.

One of the principal reasons for not supporting the approach is the availability of data needed and the inability for economies to obtain the necessary data, which may impact international comparability between advanced and emerging and developing economies.

Some disagreed on conceptual grounds, arguing that excess profits by extractors do not constitute an element of appropriating part of the resource rent but are rather part of normal producer surplus and that SNA 2008 does not support the sharing of assets (see § 17.345).

Do you agree with the adoption of this approach?



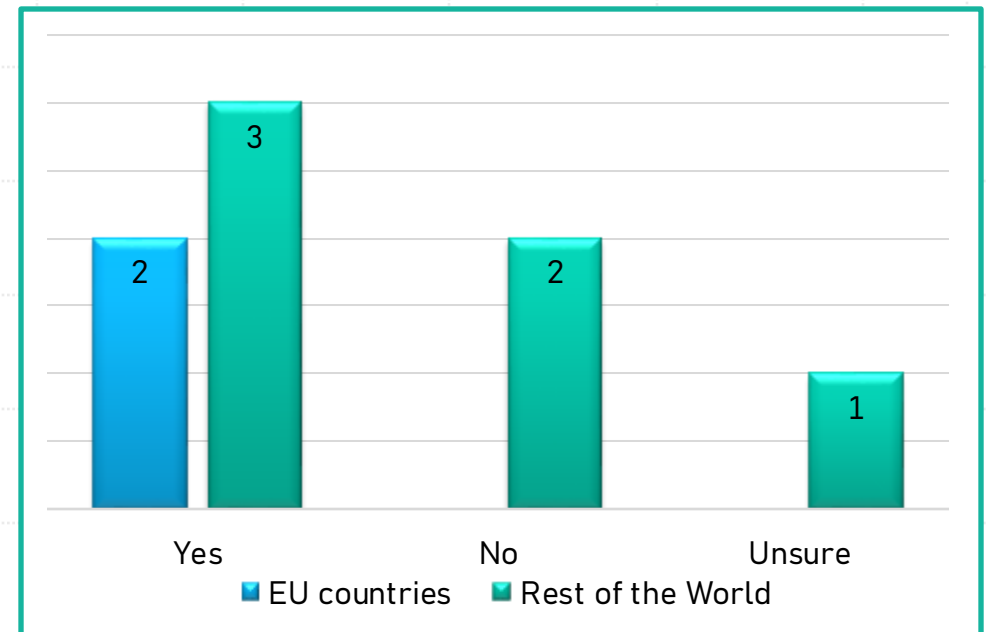
On Shared Economic Ownership of Natural Resources

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?

For those respondents who agreed with the split asset approach, the majority supported that changes in resource rents distributions should be reflected as other changes in the volume of assets and not as capital transfers.

However, one respondent indicated that it should depend on the particular circumstances as to whether the "change in resource rent distribution" is a transaction or an other economic flow.

If Yes, do you agree with the AEG recommendation?



On Shared Economic Ownership of Natural Resources

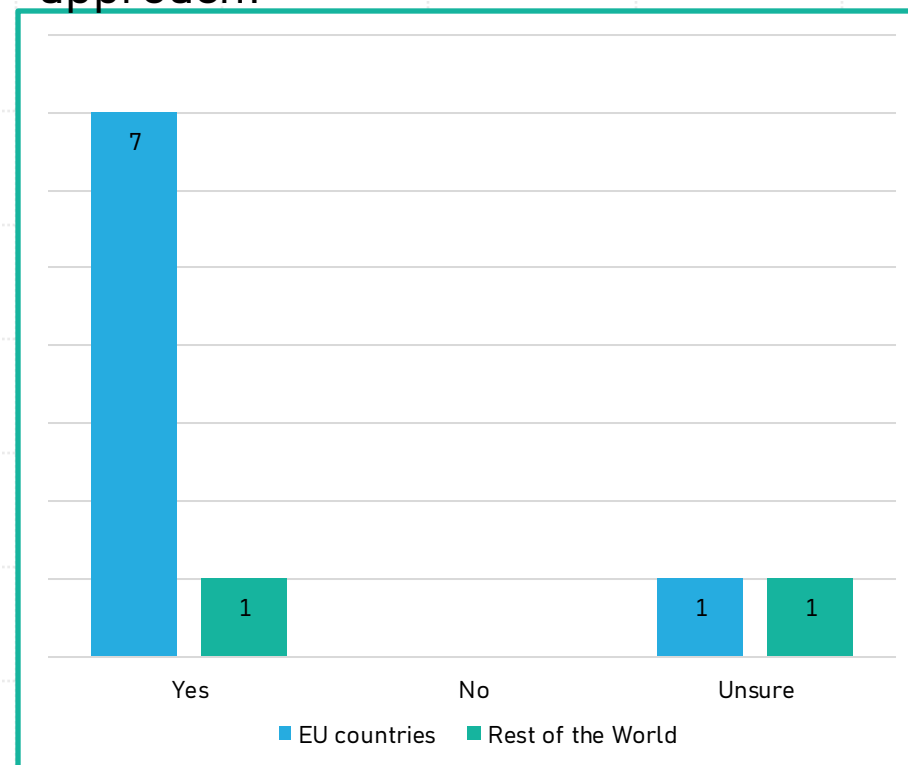
If you don't agree with the adoption of the split-asset approach (Q1A is No), do you instead prefer the "right-to-use" permit approach which was proposed as an alternative during the 19th meeting of the AEG of April 2022?

For those who do not support the split asset approach there is overwhelming support for the right to use approach.

Some of the reasons provided by respondents:

- The right-to-use approach is to some extent consistent with new IFRS 17 on lease accounting.
- It is considered consistent with the Eurostat Guidance Note on mobile phones recording (March 2017).
- The right-to-use approach requires less radical change to SNA/ESA codes and methodology.
- The "right-to-use" permit approach involves accounting for the right to extract natural resources separately from the underlying asset

If no, do you prefer the right-to-use approach?



NOTE: The split asset approach and the right to use approach lead to identical recording in the accounts of the government sector; the differences occur in the accounts of the extractor

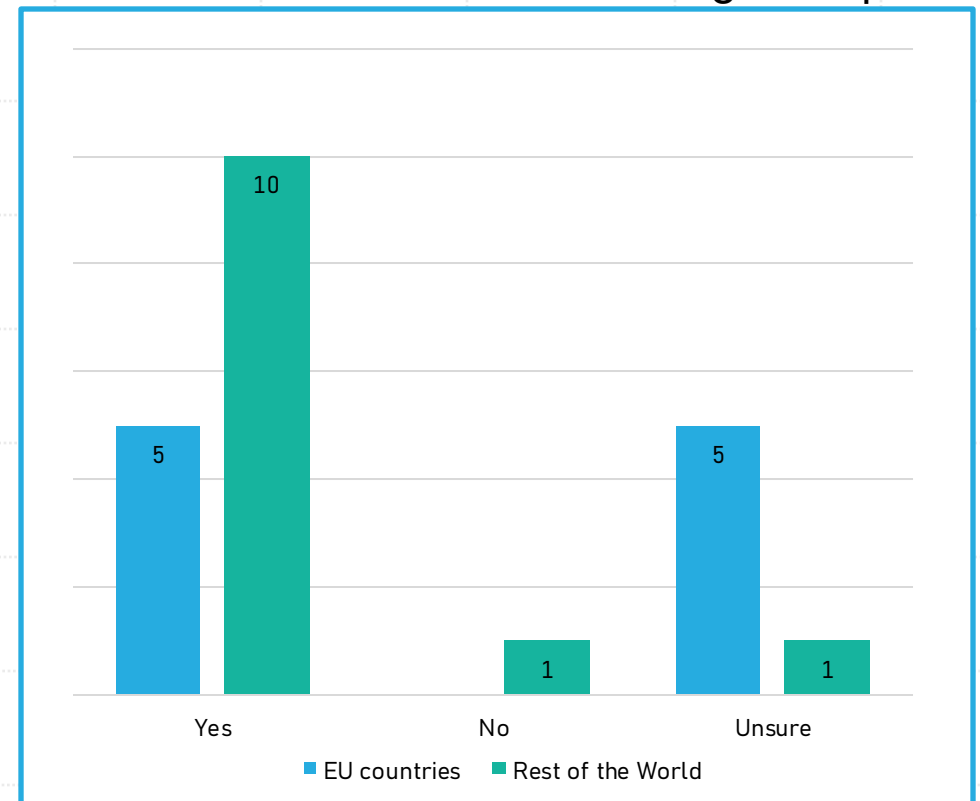
On Shared Economic Ownership of Natural Resources

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

Most GFS respondents as well as SEEA agreed that the share of natural resources should be based on observances over a long time period to mitigate the volatility of current market prices

It was suggested to avoid using smoothing techniques that are based on past observations. A more appropriate method would be to consider future prices, which may be obtained through forwards, futures or swaps.

Do you agree that the share be calculated based on observances over long time period?



On Shared Economic Ownership of Natural Resources

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

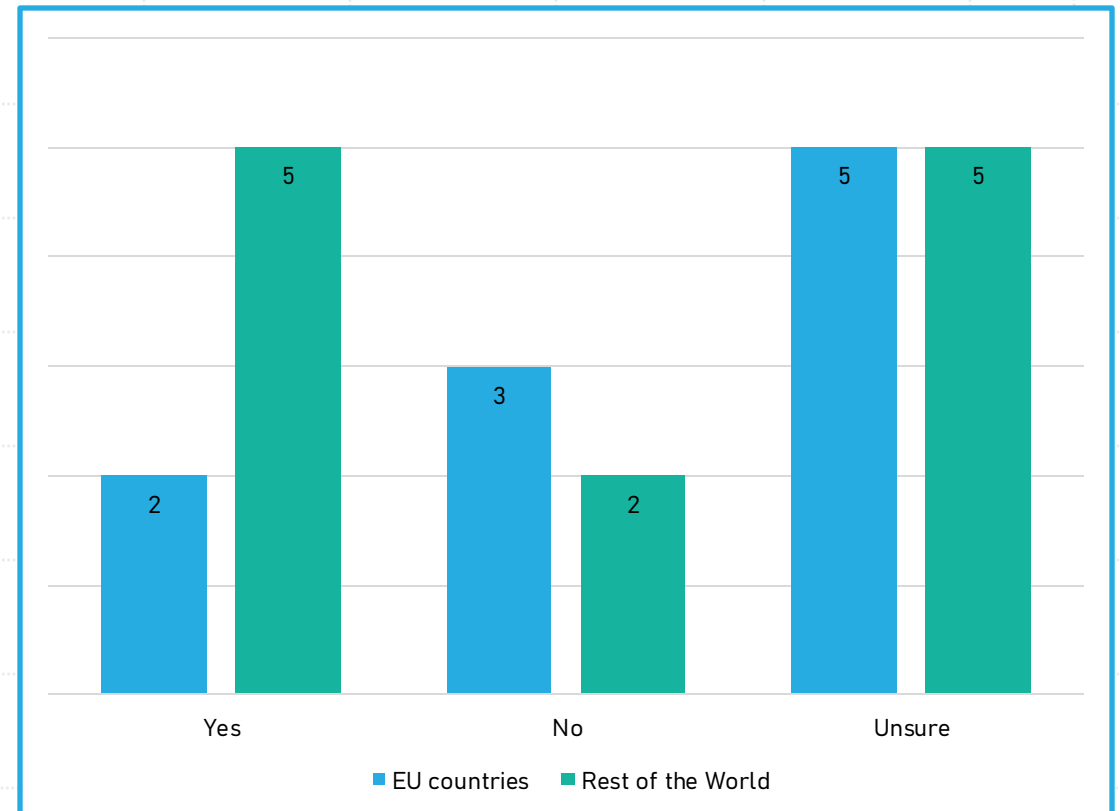
45 percent of respondents were not sure whether either approach could provide a reasonable measure of resource rents.

Some of the reasons provided for this uncertainty include:

- Insufficient micro data
- Difficulty in interpreting the results
- Challenges may arise due to imperfect market information because of political and market imperfections – oligopolies/monopolies

Similar views were expressed by those who answered no.

Do you expect that the relative resource rents could be measured?





Depletion

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.

- Most respondents supported the inclusion of depletion as a cost of production. However, there are also concerns that compilation issues may arise and should not be overlooked.
- Two respondents indicated that if depletion is recorded in the accounts of the lessor (typically the government), it should not be part of the sum of costs measure for government.



Other

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

- Existing data frameworks do not provide adequate information to adequately measure natural resources
- The partitioning of natural resource assets and depletion should be treated separately
- Additional practical guidance would be helpful
- Maybe accounting for natural resources should be introduced as part of satellite accounts



Recommendations

Recommendations

It proposed that the recommendations of the guidance note be endorsed, including:

- Natural resource assets should be partitioned, using the distribution of resource rents, on the corresponding balance sheets of governments and non-financial corporations (or any other sector) to give a more accurate reflection of the sectors' net worth.
- The recording of depletion of natural resources as a cost of production, in a similar way to the current treatment of consumption of fixed capital.
- The appearance and disappearance, including ownership changes, of natural resources should be reflected as other changes in the volume of assets.

The ISWGNA has asked the OECD to establish an Expert Group on Recording and Valuation of Natural Capital in the 2025 SNA (EG NC) to address the practical implementation challenges of the 2025 SNA in relation to reporting of natural capital and its inclusion in net measures of production and income, with the aim of producing a Manual. It is recommended that this Expert Group take the lead in providing guidance to compilers on the measurement and depletion of natural resources.



Questions

1. Do you agree that the resource rent from the natural resource should be partitioned between the legal owner and the extractor, and to be calculated using the methodology described in Table 5.5 of the SEEA Central Framework?
2. Do you agree that the Expert Group on Recording and Valuation of Natural Capital in the 2025 SNA (EG NC) is the most appropriate way for developing practical guidance for compilers on the measurement and depletion of natural resources?



▶ THANK YOU

