

**Fourth meeting of the Advisory Expert Group on National Accounts
30 January – 8 February 2006, Frankfurt**

Issue 18

Right to use/exploit non-produced resources
between residents and non-residents

**THE RIGHT TO USE/EXPLOIT NON-PRODUCED RESOURCES
BETWEEN RESIDENTS AND NON-RESIDENTS**

by Anne Harrison

AEG Issue 18 number : the right to use/exploit non-produced resources between residents and non-residents

Paper for e-consultation before the AEG, Jan 30 —Feb 8 2006

Issue description: Except for land, transactions of the right to use or exploit non-produced resources between residents and non-residents have not been fully elaborated by the 1993 SNA. For land a notional resident unit is created which is deemed to purchase the land while the non-resident is deemed to purchase a financial asset (equity) of the notional unit. Should the treatment of land be extended to other non-produced resources such as water, fish, etc. or should there be alternative treatments?

Background

The issue description summarises the current situation in the 1993 SNA and the reason for further discussion on the matter. The Canberra II Group discussed three questions intended to provide a more comprehensive coverage of the question. These were:

1. Does the decision to treat some land as produced alter the convention that ownership must be held by a resident unit even if this means creating a notional resident unit?
2. Does the same convention on ownership of land and buildings by a resident unit apply to land and buildings held under a long term financial lease?
3. Do the conventions for natural land also apply to other natural resources?

Each of these questions is discussed in turn.

The treatment of land

A notional unit is established not only when land but also a building or other immobile produced asset is acquired by a non-resident. Thus the decision to treat some land as produced (land improvements) does not alter the position that all land must be owned by a resident unit, if necessary by imputing a notional unit.

Land and buildings held under a financial lease

The treatment of a lease as financial implies the change of economic ownership to the lessee. The Canberra II Group took the view that the existence of the lease established a centre of economic interest for the lessee who would therefore necessarily be regarded as resident.

Natural resources other than land

Mineral deposits

If a unit is exploiting mineral deposit for more than one year, it is necessarily a resident unit. It is unlikely that mineral deposits would be exploited for less than one year (but see logging below). It is possible to imagine a licence to exploit a mineral deposit being given to a non-resident unit. In the period before exploitation starts, should this unit be regarded as resident? The view was expressed in the Canberra II Group that in this case a centre of economic interest was not established before activity started. However, when BOPCOM discussed the issue, it was decided that the acquisition of the licence was sufficient to establish a centre of economic interest and thus the licence holder would be deemed to be resident.

Revised 1 December 2005

Use of radio spectra by licence

It was thought unlikely that a mobile phone licence would be held by a non-resident except in the case of physically small territories where the mobile phone service was provided as an integral part of a service covering a larger neighbouring territory. The Canberra II Group was not aware of whether a licence would be issued by the domestic government to the non-resident operator in this case but the possibility exists.

Forests

Natural forests are treated as assets in the 1993 SNA. Logging by residents constitutes production. If a non-resident unit enters a country for a short period (less than one year) to fell part of a forest, should this be treated as a notional resident unit giving rise to production and (probably) exports or not? If not, and a fee is paid for the right to fell trees and remove the timber, how should this be recorded? If the activity is illegal how should it be recorded? (This is a serious practical problem in some countries.)

The Canberra II Group concluded that a resident unit would be established only if the felling activity lasted for more than one year. If the felling was complete within a year, no such unit, even a notional unit, should be created. If a fee is paid for the right to make a one-time extraction of specified quantity, this would be the sale of an asset (the standing timber). In the case of illegal logging the same rules should apply. In practice, it might be assumed that no resident unit can be established and the illegal felling and removal of timber should be recorded as uncompensated seizure of an asset.

These conventions would extend to very short term mineral extraction if this occurred.

Fish

The arguments for units involved in logging do not automatically translate to fishing vessels because the residence rule for vessels is related to the territory from which the vessel operates, not the physical location of the vessel. Further, the Canberra II Group have also proposed that fish beyond the Exclusive Economic Zone (EEZ) of a country should (in principle) be treated as assets of the national economy if quota for fish in these areas are established by international agreement.

Thus a resident unit is established for a fishing vessel only if it establishes an operational base in the domestic territory for more than one year. Non-residents may fish legally with a permit or quota or may fish illegally. Payments for permits are treated as assets in their own right. Fish caught illegally are, in principle, to be treated as uncompensated seizures but this may be difficult to measure in practice. It is however, a serious practical problem and measurement may become easier.

¹ This proposition is discussed further in the paper on issue 21, Leases and licences

Questions for the members of the AEG

Do you agree that :

For land:

1. All land must be owned by a resident unit, whether it is natural land or land improvements?
2. The lessor of land or buildings held under a financial lease must be a resident unit, notional if necessary?

For mineral deposits (or static natural resources subject to multi period extraction),

3. The issue of a licence establishes a sufficient centre of economic interest for the holder of the licence to be regarded as resident (the BOPCOM view) or must production start to establish this (the CG view)?

For radio spectra (where there is no change in the asset brought about by usage),

4. the holder of a licence to use the spectra would normally be resident but exceptions may occur in certain cases such as geographically small countries covered by facilities in neighbouring countries?

For logging (or static natural resources subject to short-term extraction),

5. extraction must take place for more than a year to establish a resident unit?
6. A fee for one-time extraction represents the sale of an asset?
7. Illegal extraction should be recorded as uncompensated seizure?

For fish:

8. A fishing vessel becomes resident only if the operator establishes a base in the country in question, otherwise the residence of the vessel remains that of the operator, regardless of the area in which it is fishing?
9. Fish beyond the EEZ may be treated as assets if allocated by international agreement?
10. Permits to catch fish may represent assets in their own right?
11. Illegal fishing should in principle be recorded as uncompensated seizure?