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# Comments on *1993 SNA* updating issues from Statistics Norway

Firstly, we would like to express our support of the updating process of *1993 SNA*, and welcome the completion of this complicated project according to the established time table. In general, we think that important achievements have been reach for most of the 44 issues.

We have given our views on the individual AEG recommendations in a number of consultations rounds. It follows from these comments that we support most of the provisional recommendations on the updating issues. However, we want to give our views on some issues that we have not commented upon earlier, and in addition we want to underline some of our previous comments. Our comments are listed in the order of the presentation of the issues.

**Issue 2 Employers' pension schemes**
Statistics Norway generally supports that funded and unfunded employers' pension schemes should be treated equivalently in the accounts. In Norway, private employers' pension schemes and local government employer's pension schemes are funded, while the central governments employer's pension scheme is unfunded (pay as you go system). As employees in central government built up claims on their employers in the same way as employees in the private sector, it seems reasonable that the employers' liabilities and other associated flows should be recorded in an equivalent way independent of whether the employers' pension schemes are funded or unfunded.

Principally, a common distinction is between government employers' pension schemes and social security schemes. In Norway the social security scheme is global, covering the whole population independent of whether you have been employed or not. However, a part of this social security pension is income related. Moreover, there is a clear link and coordination in the Norwegian system between the social security scheme and pension rights you earn as a government employee. In practice therefore, it may be difficult to distinguish between pension schemes for government employees and the social security scheme. This may apply for Norway, as well as for other countries. Thus, we are concerned that the new recording will hamper international comparability. To ensure comparability between countries, it is important that further work is undertaken to find methods so that more or less corresponding system in different countries are classified consistently.

**Issue 9 Research and Development (R&D)**
Regarding the provisional recommendation to capitalize R&D, we sympathise with the recommendation from a theoretical point of view and believe this is the way forward. However, we realise that this is a rather fundamental change to the system, and there are still unresolved problems of theoretical,

methodological and empirical nature. It can, therefore, be questioned whether the implementation of this recommendation will hamper comparability between countries. We recommend that in an interim period, satellite accounts should be used to test and evaluate the consequences of R&D capitalisation. We do not think that a satellite account is the answer on a permanent basis. At the point of time when experiences are gained, and when we believe that GDP included capitalisation of R&D represents the best and most relevant measure, then it is also time to include it in the core accounts.

**Issue 14 Cost of ownership transfers**
As stated in previous comments, Statistics Norway agrees to the proposed recommendations on cost of ownership transfers. However, regarding terminal costs our view is, as stated earlier, that terminal cost should be recorded as gross fixed capital formation and written off as consumption of fixed capital in the year of acquisition. This is in line with the recommendation, except that we suggest that this should be the main principle and not only done when adequate data is lacking.

Our main argument for this is that one can look upon the terminal costs as representing an investment in protective capital to prevent future environmental damage and thus they are not directly related to the production activity in the past. The investments taking place at the end of the life of the underlying capital asset should be written off immediately, i.e. the protective service is rendered at the moment the asset is removed. This recording avoids the peculiarity of having a negative value of an asset recorded in the national accounts, and a very uncertain imputation is avoided. This latter is due to the fact that costs related to dismantling for example oil rigs etc in the future are uncertain partly because of unknown request regarding environmental protection and partly because of technological developments.

**Issue 15 /16 Capital services/government and non-market producers: cost of capital of own assets**
From a theoretical point of view, Statistics Norway has sympathy with the proposal to include a return to capital in the measurement of non-market output. In this way, assets used in market production and non-market production would be treated in a consistent way. However, we are worried regarding the possibilities - i.e. the empirical basis - to actually implement the ideas. In particular, one will lack data for the rate of return to be used in the estimates. Even though the recommendations include some guidelines with respect to choice of rate of return, we are afraid one would end up with rather arbitrary choices, making international comparisons difficult.

**Issue 19 Military expenditures**
Statistics Norway agrees with the recommendation that military weapon systems/equipment should be treated as fixed assets as long as they fulfil the general criteria as other fixed assets, and that expendable durable military goods should be treated as inventories. Since the implementation of 1993 SNA, Statistics Norway has had some difficulties in distinguishing between military equipment that should be recorded as gross fixed capital formation and equipment that should be recorded as final consumption expenditures. The new recommendation will make it clearer how to treat the equipment, and at least in Norway treating all military weapon systems/equipment as fixed assets will be in line with how they are assessed in the source data.

Regarding consumption of fixed capital of military equipment, we se some challenges related to estimating the capital stock of the "new " assets.

**Issue 25b Holding companies, special purpose entities, trusts**
We support the views of the AEG regarding all non-resident SPEs should be classified as separate institutional units. We do however not like the use of the word SPE (Special Purpose Entities). SPE relate to different institutional sector classifications and should not be merged in the discussion of sector classification. We would also point out that the use of SPE could contribute to misunderstandings, for instance, mixing up SPE and SPV.

The description of holding corporations in the new SNA is not finalized and Statistics Norway support further discussions. Statistics Norway is of the opinion that holding companies for a non-financial group should not be moved out of non-financial to financial corporations, because they are neither engaged in financial intermediation nor provide financial auxiliary services.

We support the distinction between i) Parent corporations and ii) Holding corporations. There are however some confusion regarding classification of parent corporations. Our question is whether, in the new SNA, the parent corporations should be classified according to their own activity or according to the main activity to their subsidiary companies.

We support the proposal to create a third sub-grouping of other financial institutions (holdings, brass-plate entities, empty shells).

Statistics Norway supports also a more extensive use of boxes where terms like financial corporations, financial intermediation, monetary financial intermediation, investment funds, miscellaneous financial intermediation and financial auxiliaries are explained. We also support the new table, which provides an overview of the various groupings of institutional units classified as financial corporations.

**Issue 40 Goods for processing**
As earlier commented Statistics Norway does not support the recommendation to treat goods sent abroad for processing on a net basis. We think this recommendation pays too much attention to the wish to avoid imputed ownership changes, relative to the need to describe actual production activities for those units doing the processing in question.

The most important argument in support of the new proposal is that the institutional model is based on the fundamental nature of transactions as arrangements between two parties where the ownership of economic resources or values changes from one party to the other. In addition, net recording is probably more consistent with the payments between the involved parties and also more in line with the records found in their accounting books. However, these arguments seem to be based on more practical than principal considerations.

Choosing gross or net recording of processing is a question of what kind of map over the production activities we want the Supply and Use tables of the National Accounts to present to its users, which in turn will depend on what analytical needs they have.

The starting point in constructing the National Accounts is the notion of *institutional* units and the economic relationship between them based on the concept of ownership to resources or economic values. Ownership can be thought of in an institutional perspective as a *strict legal* concept, but also in a non-institutional *economic perspective* in terms of "right to use" disconnected from strict legal ownership. Normally those two sides of ownership coincide, but in some cases the two perspectives clashes and the latter perspective has been recommended.

Financial leasing is such a case, where the institutional model would imply gross fixed capital formation of leased assets in the financial enterprises sector. Instead the *real sector* model is used implying gross fixed capital formation in the sector *employing* the assets in its production activities. The justification is obviously to accommodate production and productivity analyses, i.e. the industry based production of goods and services combining raw materials, man-power and fixed capital, in a consistent manner.

Another example is found in the geographical allocation of *freight* recorded on the Rest of the World Account or the Balance of Payments. According to the institutional model freight is to be allocated to the country in which the legal *contract counterpart* is resident. In many cases this will be a different country from the country to which the goods physically are transported. By convention however, the freight services are deemed consumed by the goods importing country, another case of choosing the real sector model[1] in favour of the institutional model.

Returning to the case of processing, the institutional model or net recording would mean that country B according to National Accounts do not produce goods and do not consume raw materials in its production. Thus the National Accounts of country B will describe services production activities (processing) employing employment and a fixed capital stock scaled towards goods production. The

[1] This is a parallel case to the recording of transport margins as part of the purchaser's value of the goods.

opposite will be the case for country A, the National Accounts will show production of goods without necessary employment or fixed capital stock.

Another point is that the link between production data of the National Accounts and *environmental* data might be meaningless without having the national Accounts giving a physical description of the process of producing goods and services.

Finally, it can be mentioned that the WTO[2] negotiators are requesting data according to the real sector or product flow model. The reason being that in the bilateral legal trade agreements between countries separate rules are employed for merchandise trade and for trade in services, and it is paramount to avoid countries escaping the rules prevailing on the goods sector by referring to the statistical convention of treating goods production on contract basis as services.

The problem of recording of processing in the National Accounts and Balance of payments statistics might also be seen as part of a more general question of how to view and treat manufacturing units in statistics when their physical goods production is moved abroad, keeping only development and distribution activities left in the first country. The questions are both how to *record income and costs*, i.e. gross or net recording, and how to *classify* units when such structural changes take place.

Our view is that gross recording is the most appropriate method that serves the user needs best. From this follows that units engaged in processing (country B) are to be classified accordingly in the manufacturing industry.

If, however, net recording will be recommended, the classification question must be addressed. Units engaged in processing and recorded net must be kept separate from ordinary goods producing units. A symmetrical recording of the parent enterprise (country A) would imply that also this unit is kept separate from ordinary goods producing manufacturing units, and classified in accordance with the services activities it is engaged in (research and development, marketing etc.).

A disturbing fact is however that the NACE[3] committee in Eurostat has decided that parent companies keeping the legal rights to goods produced physically abroad are to be classified as manufacturing units. If this decision is maintained it must be made clear that such units is kept separate from other manufacturing units[4] by the introduction of a new type of industries to be called *manufacturing services or industrial services*[5].

The main question is what information should be found in the Supply and Use tables of the National Accounts. In our opinion information according to the real sector model, i.e. technological and physical based information needed to analyse production and productivity in a meaningful way, is to be preferred. This implies gross recording of processing in the National Accounts and Balance of Payments.

**Issue 42 Retained earnings on mutual funds and other collective investment schemes**
We agree with AEG's recommendation provided that the definition of retained earnings in mutual funds will be operational in practice, and do not imply that the income must be calculated for each fund separately. We find it natural to consider whether it is convenient or practical to use the same definition of retained earnings as the definition of reinvested earnings for direct investment enterprises in BPM, i.e. to include holding gains and losses recorded in the profit and loss account.

Provided that the definition of retained earnings in mutual funds will be operational, we also support the new component "property income attributed to holders of investment funds". We prefer not to have the new component optionally sub-divided into interests, dividends and other income.

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[2] World Trade Organisation.
[3] The European industry classification
[4] A separate coding of such units has already been introduced in the Norwegian business units register.
[5] If such a category is not introduced in the NACE, the National Accounts should consider to introduce it independently.

**Issue 44 f Financial derivatives**
Regarding f*inancial derivatives,* we are not in favour of a distinction between different types of financial derivatives.

**Concluding remarks**
As mention in the introduction, we support most of the recommendations except the one for issue 40 Goods for processing. We realise that implementing the whole set of new recommendation will lead to more imputations in the national accounts. It is important that the imputations are transparent and that methods used are agreed upon. International comparability is important and too many imputations using poor/missing data and can destroy this comparability. Also, some imputations are mostly interesting for national analysis/purposes and various methods of recording can be advocated, depending on type of analysis. In such cases we think the analysis/imputations should be done within satellite accounts or by the user, while the core accounts should be more or less unaffected and thus be the instrument for international comparability.

Yours sincerely,

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