STATISTICS

Accounting for Economic Ownership and Depletion of Natural Resources

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Accounting for Economic Ownership and Depletion of Natural Resources

- Prepared by the WSTT, two main proposals:
  - Align SNA to SEEA-CF regarding depletion of natural resources
  - Split the ownership of natural resource wealth based on economic ownership of the natural resource asset (the assessment of risks and rewards)

- Discussed by the AEG at its14th meeting (Oct 2020) where it was approved for global consultation.

- Global consultation occurred Summer / Fall 2021 with presentation at the November 2021 AEG.

- Results of the global consultation presented at the 17th meeting (Oct 2021)
  - High & medium relevance = 70%
  - Agree with split-asset proposal = 65%
  - Agree with depletion = 67%

- Much of this work preceded the GFS community's participation on the WSTT. GFS compilers have raised concerns that the decisions taken by the AEG will potentially significantly impact key government aggregates (e.g. expense) and balances (e.g. net operating balance), by amounts which will be sensitive to underlying assumptions made.

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- **Recommendation 1** - Depletion of Natural Resources is recorded…
  - in the production and generation of income accounts of the extractor as deductions from value added and operating surplus rather than the Other change in the volume of Asset Account.
  - in the allocation of primary income account, with a new entry entitled “Depletion borne by government”.

Table 5.10
Entries for allocating the income and depletion of mineral and energy resources

Transaction	Government Resources	Government Uses	Extractor Resources	Extractor Uses
Production account				
Output—sales from extraction			100	
Intermediate consumption				50
Gross value added			50	
Consumption of fixed capital			-15	
Net value added			35	
Depletion			-6	
Depletion-adjusted net value added			29	
Generation of income account				
Compensation of employees				20
Gross operating surplus			30	
Consumption of fixed capital			-15	
Net operating surplus			15	
Depletion			-6	
Depletion-adjusted operating surplus			9	
Allocation of primary income account				
Depletion-adjusted operating surplus				
Rent	5			5
Depletion borne by government		3	3	
Depletion-adjusted saving		2		7

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- **Recommendation 2** – Stock of Natural Resource Wealth allocated between the government and extractor in which:
  - the allocation based on the distribution of resource rents and sharing of operational risks
  - the allocation is recorded as a transfer of a capital asset in the capital account.

Why does the GN propose an ownership split?

- There is evidence that many governments are not appropriating the full, or even a significant part of a, natural resource's returns.
  - The next SNA should address this policy concern
  - Transferring the (public) wealth of natural resources to private enterprises is in many examples - reality

- If we agree to record depletion in the SNA (following the SEEA-CF guidance)
  - Since resource income is only partly accumulating in the government accounts, it is neither desirable nor feasible to record depletion for the full amount in the government accounts
  - Reversely, it is undesirable to record no depletion element in the accounts of the extractor.

GFS compilers have highlighted several concerns with splitting the ownership of natural resource wealth

Concerns with respect to recording a capital transfer in the government accounts:

- the recording of a capital transfer to offset the disposal of the nonfinancial asset implies that the government is “donating” part of a country’s natural resources – this seems at odds with a situation where government is selling exploitation permits/licenses to extractors for the rights to extract subsoil assets
- calculating the value of the capital transfer is challenging and dependent on many assumptions.

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Concerns with respect to valuation of natural resources:

- calculating the resource rent of a subsoil asset requires many assumptions about future natural resource prices and operating costs, as a result these estimates may vary significantly.

- If the impact of these estimates is limited to the government balance sheet and net worth the uncertainty causes analysts minimal difficulties, but it is more problematic when that estimate is driving the value of transactions in net disposals of nonfinancial assets and offsetting capital transfers in kind.

GFS compilers have highlighted a number of concerns with splitting the ownership of natural resource wealth

Other concerns:

- once the asset is split then it would seem logical that not all royalties can be considered rent, as the extractor is not paying the government for use of a government natural resource asset as the extractor now owns that asset.
- once it is agreed to a split economic ownership of subsoil assets then the door may be open for this to be extended to other assets, such as those involved in public-private partnerships
- many countries won’t have the capacity to implement the required split asset treatment, which will impact on the comparability of GFS data

GFS compilers – alternative option

Right to use asset

- consider something analogous to the accounting concept of a “right to use” asset by extending the current guidance on transferable lease assets to cover non-transferable exploitation permits leaving the underlying natural resource in the government balance sheet.

- the asset would have a zero value at inception (akin to the idea that the government captures all the rent initially) and takes on a positive value as/if long-term prices increase.

Questions for the AEG

1. Given these concerns, should we re-open the issue and consider the alternative recording option proposed by the GFS community.

2. Do you agree that we should incorporate this feedback into the existing global consultation documentation.