The Expert Group on Natural Capital: *developing practical guidance*

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Outline

- 2025 SNA recommendations on Natural Resources
- The Expert Group on Natural Capital

2025 SNA recommendations on Natural Resources

Main changes regarding natural resources in new SNA

- Important changes in the 2025 SNA regarding natural capital, including:
  - Recording depletion as a cost of production
  - Explicit recognition of renewable energy resources such as solar, hydro, wind, geothermal as economic assets requiring valuation
  - Changes in the treatment of single-use biological resources
  - Split ownership of natural resources between Government and private sector
  - Various changes in the classifications pertaining to natural capital
- These changes are important to improve the analytical usefulness and relevance of the accounts in responding to the pressing policy needs of our time

Asset classification – natural capital

AN.3 Natural capital

AN.31 Natural resources

AN.311 Land

AN.312 Mineral and energy resources

AN.3121 Non-renewable mineral and energy resources

AN.31211 Oil resources

AN.31212 Natural gas resources

AN.31213 Other mineral and energy resources

AN.3122 Renewable energy resources

AN.31221 Wind energy resources

AN.31222 Solar energy resources

AN.31223 Water energy resources

AN.31224 Geothermal energy resources

AN.31224 Other renewable energy resources

AN.313 Biological resources

AN.3131 Biological resources yielding repeat products

AN.31311 Animal resources yielding repeat products

AN.31312 Tree, crop and plant resources yielding repeat products

AN.3132 Biological resources yielding once-only products

AN.31321 Migrating biological resources yielding once-only products

AN.31322 Non-migrating biological resources yielding once-only products

AN.31323 Work-in-progress on non-migrating biological resources.

AN.314 Water resources

AN.315 Radio spectra and other natural resources

AN.3151 Radio spectra

AN.3152 Other

AN.32 Ecosystem assets

Depletion as cost of production

- Depletion of mineral and energy resources and of biological resources **recorded as a cost of production** instead of other changes in volume
  - Consequently, net domestic product (NDP) will not only be affected by consumption of fixed capital, but also by depletion of natural capital
- Depletion defined as physical extraction/harvest (net of natural growth in case of biological resources) of the resources multiplied with average in situ price of the asset (based on SEEA Central Framework 2012)
- The attribution of depletion costs will be as follows:
  - Depletion in full recorded in production/ generation of income account of extractor
  - Depletion borne by government recorded via distribution of income account (through a negative rent which offsets the rent payment)
    - As a result, no change to GDP, only to NDP

Renewable energy assets

- Recognize and clearly define renewable energy resources as an asset, to be classified in a separate asset category
- Renewable energy asset: only those resources viable in economic production under prevailing technological + economic conditions
- Examples:
  - Only solar radiation captured by existing panels is an asset
  - A remote river without hydroelectric generation is **not** an asset
- Stock (at a point in time): cumulative quantity of renewable energy resources harvestable by the commercial renewable energy projects at that time
- Valuation based on Net Present Value of future resource rents or "least-cost alternative" method if former is inappropriate

AN.312 Mineral and energy resources

AN.3121 Non-renewable mineral and energy resources

AN.31211 Oil resources

AN.31212 Natural gas resources

AN.31213 Other mineral and energy resources

AN.3122 Renewable energy resources

AN.31221 Wind energy resources

AN.31222 Solar energy resources

AN.31223 Water energy resources

AN.31224 Geothermal energy resources

AN.31224 Other renewable energy resources

Biological resources (1)

- Focus is on **biological resources yielding once-only products (e.g. timber; fish)**
- Distinction between cultivated / non-cultivated biological resources will be defined slightly differently:
  - Resources where the control, responsibility and management does not go beyond the establishment of quota regimes (e.g. migrating wild animals and fish in open waters) ***versus*** resources where one can observe a continuum from intensive to extensive forms of control, responsibility and management (e.g., the growth of trees for timber production)
  - Timber treated categorically as cultivated, aquatic resources as non-cultivated
- The asset boundary itself for biological resources will not be changed
  - Timber in remote / non-logged areas of Amazon is not an asset

Biological resources (2)

- Regarding timber, distinction made between underlying asset (e.g. forest land) + standing timber (inventories)
- Terminology:
  - Positive changes in inventories are labelled natural growth, while negative changes are referred to as extractions
  - For the underlying asset, the terms regeneration and depletion are used
- Accrual recording of output (work-in-progress):
  - natural growth -> additions to inventories; at the moment of harvest, a withdrawal from inventories
- Measure output as percentage of natural growth expected to be exploited in the foreseeable future
- Record depletion as cost of production, net regeneration as negative depletion (tbc)

Split-asset approach

- Split the value of natural resources (mineral and energy resources; biological), in line with the appropriation of resource rents by both the legal owner (reflected as receipts of rents) and the extractor (reflecting the residual value of the resource rent).
  - In many cases this entails using the Residual Value Method for measuring resource rent
  - Estimate part of the resource rent appropriated by government (such as Specific taxes less subsidies on products + Other specific taxes less subsidies on production + Rent (royalties) + Specific taxes on income)
  - Apply Net Present Value method to obtain the respective asset values
- In doing so, it is recommended to record transfers of parts of the resources as other changes in the volume of assets and liabilities, and not as capital transfers

The Expert Group on Natural Capital

- The ISWGNA asked the OECD to lead a new task team to address practical implementation challenges of the changes: **Expert Group on Natural Capital (EG NC)**
- The EG NC is one of 3 new task teams set up in 2023 as part of the SNA update process to assist countries with implementation of the 2025 SNA
- Objectives:
  - Provide **practical guidance** to countries on methods to implement changes relating to natural capital in the 2025 SNA in the form of a handbook (working title *Natural Capital Compilation Guide*)
  - Enhance **international comparability** of the national accounts
- The handbook will be developed over the coming months with initial draft for wider consultation planned for October 2024, aiming for release by early 2025

Process of the EG NC

- Membership: currently 18 countries, several international organisations, experts and representatives of the SEEA and GFS communities
- The EG NC will report to the **annual meetings of the WPNA** on the progress of the work, as well as regularly updating the ISWGNA and AEG
- Approach:
  - Started with development of a series of short practical guides discussed in subgroups that meet regularly, to allow for in-depth technical discussions
  - The short guides are developed in parallel with early implementation work by countries and will be informed by this work
  - Cross-cutting topics such as selecting of discount rates, taxes and subsidies discussed in EG NC meetings

The Compilation Guide

Outline

1. Introduction
2. Measuring natural capital
3. Valuing natural capital
4. Mineral and energy resources
5. Biological resources
6. Recording natural capital

References

Annexes

Specific features

- Distinguish between different Tiers to address differences in data availability between countries
- Accompanying workbooks for educational purposes and to facilitate compilation
- Country examples

Thanks for your attention!

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