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Directorate C: National and European Accounts

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Mr Gosse van der Veen,
Director General
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Prinses Beatrixlaan 428
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<u>Subject</u>: **Follow-up consultation on recording of the division of the Nederlandse Gasunie, II**

Dear Mr van der Veen,

Thank you for the additional explanations provided on the recording of the Gasunie rearrangement (your letter dated 15 May 2006, Ref. CBO-2006-089). In our letter dated 3 April 2006 (Ref. ESTAT/C-3/LN/LP/gr D(2006) 30032) we asked your views on the recording of the substantial change in value of the newly created Nederlandse Gasunie Transport Company (NGT) and whether the reorganisation had led to a reduction in the value of subsoil assets recorded in the state balance sheet in public accounting.

Possible ways to register the transfer of value from the State to the NGT

We analysed your explanations together with your proposals in which you described the potential relevant changes in the state balance sheet due to the gas industry reorganisation and in which you proposed two options on how to treat the transfer of value from the State to the new NGT in national accounts using the other change in volume accounts:

- Option A) suggests a capital injection in kind (of a non-financial non-produced asset) from General Government to a public corporation expected to be profitable, thus using the other change in volume account (according to ESA95 MGDD[1], Part II, chapter 3.2 – capital injections in kind);

- Option B) proposed a reclassification of subsoil asset into a financial asset (equity, AF.5, of general government into a public corporation).

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[1] ESA95 Manual on Government Deficit and Debt.

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We understand that the reorganisation of the gas industry led to a reduction in the value of subsoil assets recorded in the state balance sheet according to public accounts and that you envisage a similar recording in national accounts.

Eurostat's views

Firstly, we agree that it is reasonable to record the movement in the state balance sheet in national accounts using the *Other change in volume account* (K.12), either reflecting a capital injection in a public corporation that is expected to be profitable (ESA95 MGDD, Part II, chapter 3) or a reclassification of some subsoil assets into equity.

We note however that those entries can account for only half of the increase in value of the NGT (in proportion of the government stake in NGT): we understand that corresponding entries would be necessarily recorded in the books of Exxon/Shell in order to account for a further appearance of equity liability of NGT of € 2.7 billion, a question that is not addressed in your note. We believe that an entry in the other change in volume would occur in the books of Exxon/Shell, either reflecting movements in subsoil assets positions or without any such movements, unless its equity stakes of Exxon/Shell in the Nederlandse Aardolie Maatschappij (NAM) already reflected this market value.

In addition, it would seems that about € 5 billion of tangible fixed assets are reported in books of the NGT[2], presumably reflecting infrastructure assets rather than perceived subsoil assets. In this case, the capital injection in kind view suggested under the option A) in your letter would less likely be applicable, and the reclassification of assets view, from non-financial ones to financial ones in government accounts, suggested under your option B) would more likely to be correct.

Secondly, I draw your attention on the fact that the valuation of the NGT equity stake for € 5.5 billion must reflect expectations of cash dividends paid to the NGT's owner (i.e. the State), with the implication that those cash proceeds cannot be classified as *Rent* (D.45) in national accounts but must be recorded as *Distributed income of corporations* (D.42).

As a consequence, those cash amounts will have to be tested every year for the super-dividend test: any cash amount distributed to government in the form of dividends in excess of the operating profit of the NGT, will have to be recorded as a financial transaction in *Other equity and shares* (F.5), in line with the ESA95 MGDD (Part II, chapter 1.1.4).

To the extent that the assets of the NGT comprise noticeable infrastructure assets (tangible fixed assets), with noticeable *Consumption of fixed capital* (K.1) entries (at the market value), it is plausible that the excess profit will not be considerable compared to the dividend distribution.

Sincerely yours,

Laurs Nørlund
Director

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[2] Observed in the NGT 2005 annual report.