

Statistics Norway
Eurostat Grant Agreement 2016
No. 05121.2015.001-2015.543

**“Work towards meeting new requirements of PEFA, EGSS
and EPEA in Regulation (EU) No 538/2014 (phase IV)”**

Part 2

Environmental Protection Expenditure Accounts

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1. Introduction

This document presents the results and work undertaken in part 2 of the pilot study “Work towards meeting new requirements of PEFA, EGSS and EPEA in Regulation (EU) No 538/2014 (phase IV)” according to Eurostat grant agreement No.05121.2015.001-2015.543.

Environmental protection expenditure accounts (EPEA) was in April 2014 amended in the EU-regulation 691/2011 on environmental accounting through the new regulation new regulation 538/2014. Statistics Norway is now working step-by-step to develop chosen areas of the statistics in order to meet the reporting requirements in 2017.

This chapter presents the results of the project carried out in 2016 on Environmental Protection Expenditure Accounts (EPEA), with the overall goal of establishing a production system for the compilation of the EPEA. Chapter 2 presents each reporting table in EPEA with description of how to fulfill the obligatory reporting requirements. Chapter 3 gives a description of the production system, including data collection and evaluation of the data. In chapter 4 the 2016 data collection is described. Chapter 5 explains how the method for EP government expenditures is updated and chapter 6 deals with how to include NPISH in EPEA. The conclusions of the project are summarized in chapter 7.

Main objective:

- **Establishing a production system for the compilation of the EPEA tables**
Develop a production system that processes the different data sources and that allows the EPEA to be compiled in an efficient and comparable way each year
- **Further development of EPEA**
Assessment of the method for general government expenditures, use of data from national accounts in table 2, 4 and 5, and investigation of NPISH.
- **2016 data collection of EPEA tables**
Participate in the 2016 data collection for environmental protection expenditure accounts with data for at least one year.

Conclusion:

- This year’s project has resulted in the overall conclusion that the obligatory reporting requirements will be fulfilled for the main part of the EPEA questionnaire.
- Data sources for all reporting tables has been evaluated and concluded to satisfy the data needed. Some development has to be conducted in the national accounts.

2. The reporting tables

This chapter will give an overview of the data needed to fulfill the reporting requirements and the connection between the tables and the data sources needed.

The subdivision of the chapter follows the numbering of the tables as presented in the latest questionnaire for the Environmental protection expenditure accounts available on Eurostat's homepage¹. The required reporting variables are also based on the latest version of the questionnaire.

2.1. Table 1 - General government and NPISH

Table 1 allows for reporting data on the production of EP services, gross fixed capital formation and acquisition less disposals of non-financial, non-produced assets (such as land) for the production of EP services and final consumption of EP services by the units of the general government and NPISH institutional sectors. Table 1 should cover the expenditure for environmental protection of all units classified in the government sector (S.13) and NPISH sector (S.15) in the national accounts.

The obligatory variables in this table are *EP output*, *EP market output*, *EP non-market output*, *Gross fixed capital formation and acquisition less disposals of non-financial (GCF)*, *non-produced assets* and *Final consumption of EP services*.

Mandatory part of table 1:

(P1.1) EP output ((P13.1) + (P11.1)):

EP market output is the sum of non-market output from General Government and NPISH.

(P11.1) EP market output (Includes P.11 (market output) of general government and NPISH local KAUs that are market producers):

There is no EP market output in General Government or in NPISH.

(P13.1) EP non-market output (Includes P.131 (payments for non-market output)), (P51G NP.1) Gross fixed capital formation and acquisition less disposals of non-financial, non-produced assets and (P3 EPS.1) Final consumption of EP services ((P13.1) less P.131 (payments for non-market output)):

The figures for General government are collected from general government statistics using the environmental specific classification as described in the report of the project in 2014². The figures are classified by environmental domains, i.e. CEPA and CReMA categories.

Figures for non-market output in NPISH are collected from the satellite account for non-profit institutions in the Norwegian national accounts.

Voluntary part of table 1:

From the general government statistics several variables for the voluntary part of table 1 can be collected. Here is an overview of the voluntary variables included in the test reporting:

¹ <http://ec.europa.eu/eurostat/web/environment/methodology>

² <http://www.ssb.no/natur-og-miljo/artikler-og-publikasjoner/government-expenditure-on-environmental-protection-and-resource-management>

- The mandatory variables divided by all CEPA categories, except detailed CEPA 1 (1.1.1 and 1.2.2).
- (P2.1) Intermediate consumption
- (D1.1) Compensation of employees
- (P51C.1) Consumption of fixed capital

The additional voluntary variables are not possible to extract from the general government statistics.

In total, the data required will be fulfilled.

As part of this year's project, the method for environmental protection expenditures and expenditures on resource management from general governments has been updated. See chapter 5 for further information.

Statistics Norway has investigated how to incorporate NPISH into table 1. This has previously not been looked into. The result of the investigation was that Statistics Norway will be able to report EP non-market output from NPISH. See chapter 6 for details from the investigation.

2.2. Table 2 - Corporations as specialist and secondary producers of market EP services

Table 2 allows for reporting data on the EP market output of secondary and specialist producers of the corporations sector, and their gross fixed capital formation and acquisition less disposals of non-financial, non-produced assets (such as land). It also records the intermediate consumption of EP services by corporations as specialist producers of EP services. Specialist producers of the corporations sector produce environmental protection services as their main activity.

The obligatory variables in this table are *EP market output*, *Intermediate consumption of EP services by corporations as specialist producers* and *Gross fixed capital formation and acquisition less disposals of non-financial, non-produced assets*.

Corporations as specialist producers and secondary producers of market EP services are defined as producers in NACE 37-39. In the Norwegian national accounts there are no secondary producers of EP services.

The data source for this table is the national accounts. Detailed Supply and Use Tables contain the required data to fill in the reporting table 2. The detailed data is on each NACE division 37-39 which is then to be allocated to the three CEPA categories in the table i.e. CEPA 2, 3 and 4.

Mandatory part of table 2:

(P11.2) EP market output:

The market output of EP services in CEPA 2-4 by specialist producers are found in NACE 37+38.1+38.2+39. The market output by these producers is collected from the detailed Norwegian national account supply tables on product level.

The market output included from the supply table is the characteristic production, i.e. only the market output in the specific CPA product related to the NACE industry. Material recovery is not included in the market output in NACE 38 as the products related to NACE 38.3 can be identified. This is consistent with the market output in EGSS.

(P2_EPS_SP.2) Intermediate consumption of EP services by corporations as specialist producers:

The method to compile this variable is to collect figures from the use tables in the Norwegian national accounts. These figures show the intermediate consumption of NACE 37+38.1+38.2+39 products by NACE 37+38.1+38.2+39.

There is however some quality issues with these figures. The total intermediate consumption on each NACE division is of good quality, but the distribution on products does not depict an entirely correct picture of which products are consumed as intermediate consumption. It is therefore not straight forward to extract the use of EP products by EP producers from the detailed use tables. The division for national accounts in Statistics Norway will as part of the annual national accounts 2015 look into this issue in order to improve the quality of the distribution of the products.

As the figures are now, it is assumed that NACE 37-39 does not have intermediate consumption of other EP services than CPA 37-39. The only CPA products that was environmentally related and used by NACE 37-39 was 812000 – cleaning services. In the draft EPEA guidelines Annex 1, class 81.29 - Other cleaning services activities – were proposed as it includes street sweeping and cleaning services. However, as of now we do not have additional information to identify the environmental activity from this CPA product. The conclusion is that the intermediate consumption of other EP services is nil or negligible.

(P51G_NP.2) Gross fixed capital formation and acquisition less disposals of non-financial, non-produced assets:

The data source for the GFCF and acquisitions less disposals of non-financial assets are the national accounts. The national accounts have figures for gross fixed capital formation i.e. acquisition less disposals of fixed assets, while for acquisition less disposals of non-financial, non-produced assets less information is not available. There is an assumption that the acquisitions less disposals of non-financial assets are negligible.

The figures for NACE 38 cannot be split in order to exclude material recovery (38.3). The total GFCF for NACE 38 has therefore been reported in the test reporting of the EPEA questionnaire.

Voluntary part of table 2:

At this stage, Statistics Norway will focus on fulfilling the obligatory part of table 2 and will therefore not include any data in the voluntary part of table 2.

2.3. Table 3 - Corporations: other (also covering producers of ancillary EP services)

Table 3 allows for reporting the EP ancillary output as well as the gross fixed capital formation and acquisition less disposals of non-financial, non-produced assets for ancillary environmental protection.
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The obligatory variables are *EP ancillary output* and *Gross fixed capital formation and acquisition less disposals of non-financial, non-produced assets*.

It is required to report data for the manufacturing industries divided on the sub-tables 3a-3e.

The data source for this table is the environmental protection expenditure (EPE) statistics. This statistics is compiled by a survey to the relevant businesses in the industries applicable.

As of this year's project we have established production routines for compiling the reporting tables for corporations i.e. table 3 and sub tables 3a-3e.

The productions system includes checking for confidentiality issues. This will be marked in the reporting tables.

There has been extensive cooperation between the statistics on environmental protection expenditure and the EPEA. The output files from the EPE statistics has been modified in order to also serve the needs within the EPEA reporting requirements.

The IT-tool SAS was used to modify and produce the correct tables for EPEA. The SAS-project was already adapted to fit the JQ reporting of environmental protection expenditures. Some alterations were needed in order to get the required level of details on the sub tables for the industries.

Mandatory part of table 3:

(P1 ANC.3) EP ancillary output:

The EP ancillary output is derived from the EPE statistics. In the survey, the corporations are asked about their total cost related to EP services. In addition, they are asked to give up how much of these costs that are bought from external contractors or subcontractors. The internal costs are derived from the difference between the two costs. These internal costs are defined as the ancillary output of EP services.

The costs are divided by environmental activities, i.e. by CEPA categories. By using the business registry the industry classification is given and the ancillary output is allocated to the correct industry.

(P51G NP.3) Gross fixed capital formation and acquisition less disposals of non-financial, non-produced assets:

Gross fixed capital formation and acquisition less disposals of non-financial, non-produced assets are derived from the EPE statistics. In the survey the corporations are asked to give up their end-of-pipe investments and their investments in integrated technologies. The two types of investments are then summed up to total investments, which is equivalent of gross fixed capital formation.

The investments are divided by environmental activities, i.e. by CEPA categories. By using the business registry, the industry classification is given and the ancillary output is allocated to the correct industry.

Voluntary part of table 3:

In short, Statistics Norway will report the following variables in the voluntary part of table 3 and sub-chapters:

- The mandatory variables divided by all CEPA categories, except detailed CEPA 1 (1.1.1 and 1.2.2)
- End-of-pipe investments
- integrated technologies
- intermediate consumption of EP services

The figures not reported in the voluntary part of table 3 are not available from the environmental protection expenditure statistics or other data sources.

In the test reporting of the EPEA questionnaire, tables 3c and 3d have been reported in aggregate. This has been done in the reporting of EPER JQ in the previous years. To fulfil the reporting requirements in December 2017 for EPEA, Statistics Norway will look into making a split between NACE 35 (table 3c) and NACE 36 (table 3d).

2.4. Table 4 - Total supply of environmental protection services

Table 4 summarizes the output of EP services, intermediate consumption of EP services by specialist producers, imports and exports of EP services, VAT and other taxes less subsidies on EP services.

The obligatory variables are *EP output*, *EP market output*, *EP ancillary output*, *EP non-market output*, *Intermediate consumption of EP services by specialist producers*, *Imports of EP services*, *Export of EP services*, *VAT and other taxes less subsidies on EP services* and *EP supply at purchasers' prices available for national uses*.

Figures for EP output, EP ancillary output and EP non-market output are automatically calculated from the other tables in the questionnaire.

Figures for import and export are only requested for CEPA 2, 3 and 4.

Mandatory part of table 4:

(P7.4) Imports of EP services and (P6.4) Exports of EP services:

Data from the national accounts show that there are only export of CPA products 383200, 383210, 383220, 383230, 383290 and 390000. This means that there are only exports of EP services registered in the national accounts related to CEPA 4 (CPA 390000). The rest of the exports are related to material recovery and are included under resource management.

There are only registered imports of EP services related to CPA 390000 in the national accounts for NACE 37-39, i.e. there are no imports related to CEPA 2-3, only CEPA 4.

(D21-D31.4) VAT and other taxes less subsidies on EP services:

This variable is available in the national accounts.

The preliminary solution is to extract it from the difference between the supply and use, i.e. it is the difference between the value at basic prices and purchasers' prices. This is done on product level.

Some work remains in order to achieve the optimal solution for this variable. Collaboration with the national accounts is needed.

2.5. Table 5 - Households

Table 5 allows for the reporting of the final consumption of EP services by households.

The obligatory variable is *Final consumption of EP services*. This is to be reported for CEPA 2 and 3.

Mandatory part of table 5:

(P3_EPS.5) Final consumption of EP services:

The final consumption of EP services by households can be collected from the national accounts. CEPA 2 and 3 corresponds to NACE 37 and 38.1-28.2, respectively.

In the EPEA draft guidelines 2016, the data source suggested is national accounts the use table at A*64 level. It is further stated that household consumption of 38.3 and 39 may be considered insignificant and the household consumption in products 37-39 therefore may be assumed to correspond to products 37, 38.1 and 38.2. A split between CEPA 2 and CEPA 3 must be performed.

Previously, a suggestion was to collect the final consumption of EP services by households from the detailed national accounts Use table on product level similar to the method described for table 2. However, when further investigated, this was not seen as the optimal solution since it did not show the correct picture of household consumption when it did not include consumption from non-market output. Therefore, for the test reporting of EPEA as part of this year’s project, household consumption is reported by using the suggested method in the draft guidelines for EPEA described above. A split between CEPA 2 and 3 could not be made.

The division for national accounts will look into the detailed supply-use tables to improve the quality of the data for the optimal reporting of household consumption in EPEA.

Voluntary part of table 5:

No data will be reported in the voluntary part of the table. This is due to lack of details from the national accounts for these variables.

2.6. Table 6 – EP Transfers

Table 6 allows for reporting of transfers by institutional sectors. As concerns general government transfers are to be reported “consolidated” (net of intergovernmental transfers).

Transfers allow for calculating national environmental protection expenditure and for calculating the financing of EP expenditure. The following transfers are to be reported in the EPEA legal module:

Expenditure
(D3_D7_D92_D99_PAY_GG.6) General government: current and capital transfers paid to corporations, households and rest of the world
(D3_D7_D92_D99_REC_GG.6) General government: current and capital transfers received from the rest of the world
(D3_D7_D92_D99_REC_CORP.6) Corporations: current and capital transfers received from GG and the rest of the world
(D3_D7_D92_D99_REC_HH.6) Households: transfers received from GG and the rest of the world
(D3_D7_D92_D99_PAY_RW.6) Rest of the world: current and capital transfers paid to GG, corporations and households
(D3_D7_D92_D99_REC_RW.6) Rest of the world: current and capital transfers received from GG

The transfers are to be allocated to CEPA 2, CEPA 3, CEPA 6, Sum of CEPA 1+4+5+7 and Sum of CEPA 8+9.

Mandatory part of table 6:

As part of the project undertaken in 2014 on Government expenditures on environmental protection and resource management, data for Table 6 was evaluated.

The data source to be used is general government statistics in the national accounts. From this data source we get figures for transfers paid by the general government, and figures for Corporations and Households received by the general government. We do not get figures for transfers paid or received by the Rest of the world.

Therefore, transfers received by corporations and households are equal the sum they have received from the general government. We do not have information on potential transfers received by corporations and households from the rest of the world.

Therefore, Statistics Norway will not be able to report the variables D3_D7_D92_D99_PAY_RW.6 and D3_D7_D92_D99_REC_GG.6.

Voluntary part of table 6:

IN the voluntary part of the table, the variables D3_D7_D92_D99_PAY_GG.6 and D3_D7_D92_D99_REC_HH.6 have been divided by all CEPA categories.

3. The production system

The main objective of the project for 2016 was to establish a production system for the compilation of the EPEA.

The compilation of the EPEA has several data sources and therefore entails different methods in order to assemble the correct data in the right layout.

The basic idea was that the data should be arranged to fits the questionnaire in such a way that it could easily be placed in the different reporting tables. This required some alterations in the how the data were formed at the respective data sources.

As a first step, all data required to fulfill the reporting requirements were collected. A second step was to evaluate the data and to quality check the data.

3.1 Data collection

The data for the EPEA reporting are collected from three different sources, the environmental protection expenditure (EPE) statistics, the national accounts and the general government statistics.

The production system for the environmental protection expenditure statistics are, as describes in chapter 2.3, adjusted to fit the reporting of EPEA. The data flow is virtually automatized to fill in the mandatory parts of table 3 together with the sub-chapters 3a-3d. Available data for the voluntary parts of the tables were also received and filled into the questionnaire.

For the first time, data from the national accounts was received for table 2, 4 and 5. In addition, data for NPISH to be included in table 1 was investigated and received for the first time.

Data from the general governments statistics was received as agreed in the 2014-project, i.e. data for table 1 and table 6 was received as planned. This includes data for central government and local government.

3.2 Evaluation and quality check of the data

The EPE statistics has been a part of the Structural Business Statistics for several years. The statistics was available for publication for the first time in 2000 and is therefore well-established. The data has been assessed as of good quality.

As this was the first time data from the national accounts was received, the quality of the data has not been previously assessed in details. Earlier projects has only been in dialogue with the division for national accounts to verify that the needed data can be collected. Detailed product information for CPA 37-39 was received for the variables market output, intermediate consumption, imports, exports, and final consumption. After some dialogue between the division for environment and energy statistics and the division for national accounts, the following conclusion was set: (i) data on output are of good quality and can be used in the reporting of EPEA on detailed level, (ii) data on detailed intermediate consumption is not of good enough quality to be used on the level required by the EPEA statistics, i.e. intermediate consumption of EP services by corporations as specialist producers, (iii) imports and exports are of ok quality and (iv) final consumption by households cannot be used from the detailed use data as it does not include all consumption.

In order to meet the requirements for the EPEA reporting, the division for national accounts will look into the detailed supply-use tables to improve the quality of the data for the optimal reporting of intermediate consumption and household consumption.

Other data from the national accounts are the satellite account for non-profit institutions which includes data for NPISH. Since the satellite account uses the international standard classification form UN (ICNPO - International Classification of Non-Profit Organizations), the non-market output related to the environment was identified. See chapter 6 for more information. The quality of the data is seen as good.

As the general government statistics was adjusted in 2014, the data is regarded as of good quality. As described in chapter 5, the method for identifying new environmental expenditures was evaluated and updated. This can be seen at an additional quality assessment of the data.

4. 2016 data collection for EPEA

As part of this year's project Statistics Norway will participate in the reporting of the 2016 questionnaire for Environmental Protection Expenditure Accounts.

In total, all available figures have been reported. Chapter 2 gave an overview of which data has been reported and chapter 3 on how the quality of the data was evaluated.

There is still some need for future development with the data from the national accounts. This will be done in 2017 in connection with the annual national accounts for 2015.

Statistics Norway has as part of this years' grant agreement participated in the test reporting of EPEA for the years 2013 and 2014. The questionnaire has been transmitted through eDAMIS along with a document with explanatory notes.

5. Updated method for EPE from General Government

The pilot project undertaken in 2014 had the main objective to develop a method for identifying general government expenditure for environmental protection and resource management, as well as developing a method for identifying these expenditures on an annual basis in order to meet the reporting requirement. This objective was met.

The updated method this year had focus on what steps to take in order to identify new environmental expenditures in the annual central government account and the local government account.

5.1. Central government

The updated method this year had focus on what steps to take in order to identify new environmental expenditures in the annual central government account from the Ministry of Finance if the account has been through revisions, i.e. if new expenses had emerged or if there had been some other changes from the previous year.

The following steps were recognized:

1. All expenditures classified as environmental in the previous central government accounts should be continued. If a split were made, either between different environmental classifications or environmental and non-environmental, this split should be looked into to see if this is still valid
2. Identification of potential new environmental expenditures. The following steps should be taken:
 - a) Search for words which are environmentally related
 - b) Identification of expenditures that have changed chapter or post in the Government accounts, but still are environmental
 - c) Go through the ministries that were expected to have environmental expenditures to see if new environmental expenditures had entered the accounts
3. Further investigation on the potential new environmental expenses i.e. read in the parliamentary propositions if necessary
4. Final update of the potentially new findings of new environmental expenditures

5.2. Local government

The local government accounts are less disposed to changes than the central government accounts. Still, it is recommended to go through the changes in the functions for which the municipal state reporting is built upon.

For example, for 2014 there was a merger of two environmental functions related to CEPA 3 and the CEPA/CRéMA that covers material recovery. This affected the environmental classification as one of the functions were split between several environmental classifications since it was a function including material recovery. The new function did not contain enough information to continue this split, therefore all the environmental expenditure in this function was allocated to CEPA 3.

6. NPISH

Table 1 includes both general government and NPISH. The projects undertaken the past years has focused on adapting the general governments accounts to environmental protection and resource management classifications, while the area of NPISH has not been investigated previously.

The project has in 2016 therefore looked at how to incorporate NPISH into table 1. The work undertaken includes a short study on how NPISH is defined and how it can be incorporated into EPEA. The first step was to investigate what information was available in the Norwegian national accounts on NPISH. The second step was to see how this could be utilized in EPEA.

6.1. The Norwegian satellite account for non-profit institutions

The NPISH is included in the satellite account for non-profit institutions, and is produced in the national accounts. The Norwegian satellite account for non-profit institutions is based on the UN Handbook on Non-Profit Institutions in the System of National Accounts.

Non-profit institutions are identified in the UN handbook based on a number of structural and operational criteria. Units that satisfy these criteria are included in the satellite account for non-profit institutions.

The satellite accounts are produced by using data sources like public accounts, accounting data for groups of organizations, structural statistics, and the funding of political parties. Data are collected from the Norwegian Control Committee for Fundraising, the Norwegian Gaming and Foundation Authority and the Norwegian Federation of Co-operative Housing Associations, among others.

The satellite accounts follow a standard classification system established by UN to group by activity. This is the ICNPO - International Classification of Non-Profit Organizations. The classification is based on the UN standard for industrial classification; ISIC rev.3, which the European industry standard NACE corresponds to. In the classification, a category for Environment is specified, ICNPO 5. This is subdivided into 5.100 Environment and 5.200 Animal protection.

The value of the non-market output in the satellite account is estimated from the costs, i.e. the sum of compensation of employees, intermediate consumption, consumption of fixed capital and possible net taxes on production.

6.2 NPISH in EPEA

For the purpose of EPEA, the subdivision 5.100 is the relevant category. This category does not correspond directly to the CEPA and CReMA classifications, and further efforts was therefore needed in order to specify which environmental protection and resource management category the production in category 5.100 is related to. In order to do this, we looked through a list specifying the organizations included in the category to see identify main purpose of their activity and categorized them by correct CEPA and CReMA category.

As mentioned, the satellite account contains the value of non-market output. It does not contain information about investments and final consumption, which are other variables obligatory to report under the EU-regulation.

The issue of investments has the preliminary solution to assume that the organizations do not have any investments which is relevant to EPEA. This is a valid assumption since the activity executed by the organizations in environment category is mainly conducted from rented offices and any other possible GFCF is insignificant.

The subject of final consumption is explained the following way: In the category of Environment, the services are mostly offered free of charge, i.e. there are no payments to these organizations. This means that approximately all production is consumed. In practice; P3_ESP (final consumption of EP

services) = P13.1 (EP non-market output), since P131 (payments for non-market output) is assumed practically equal to zero.

Trial calculations for 2013 and 2014 have been conducted.

6. Conclusions

The main objective of this pilot study was to develop a production system for the future reporting of EPEA. In the process, the data quality was assessed. Also, routines for transferring of data from the national accounts were to be established.

This year's project has resulted in the overall conclusion that the obligatory reporting requirements will be fulfilled for the main part of the EPEA questionnaire.

Data sources for all reporting tables has been evaluated and concluded to satisfy the data needed. Some development has to be conducted in the national accounts on data serving table 2 and 5 and a regular routine for delivery of data must be established.

Statistics Norway has participated in the test reporting of EPEA for the years 2013 and 2014. The questionnaire has been transmitted through eDAMIS along with a document with explanatory notes.