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Towards the Consistent Measures of Main Economic Aggregates in time of Globalization

Example from Swedish Computer and Related Services

Vera Norrman
Statistics Sweden

Summary

The paper briefly focuses on problems caused by intra-firm trade to statisticians in a small open economy of the Swedish kind. A solution already used by ExPPI and ImPPI for commodities and the European work on monitoring globalisation is shortly mentioned. The result of two Swedish studies on the development of price indices for foreign trade in services in general and for computer services in particular is advertised. A planned project on the treatment of transfer prices and the valuation of foreign currencies in order to bring higher consistency and improve the quality of economic statistics in Sweden as a whole is shortly described. The practical arguments and possible point of view on the treatment of transfer prices of the System of National Accounts in Sweden is touched upon. Computer services serve as an example.

This paper also monitors some other efforts done both in Sweden and at Eurostat level to increase the quality of the official economic statistics in a time of globalization. What else can be done is also discussed. Many steps have already been taken and others are under the development. The need of coordination of methods and figures from different statistical sources before they reach the System of National Accounts is enormous.

1. Introduction

1.1 Background

The Voorburg Group - as one of the UN Statistical Commission's city groups - focuses on services statistics. Until now the main issue has been (beside the classification issue especially in the beginning of the Voorburg Group) the development of harmonized measurement of service output both to current and constant prices.¹ The exchange of experiences by discussions on annually meetings among professionals from different national statistical institutions and worldwide international organisations brought undoubtedly the harmonization of methods used forward much faster than numbers of existing regulations and manuals themselves. It is not necessary to stress that such a type of harmonization has a value itself because it is done on voluntary and networking base.

Especially for those of us dealing with prices issues and challenges the Handbook on Price and Volume Measures in National Accounts (Eurostat 2001) became somewhat of a bible². When members of the Voorburg Group also contributed to the Methodological Guide for Developing Producer Price Indices (2005), the influence of the Handbook was obvious.

But the volume measures in national accounts do not end with the appropriate measurement of volumes of services production. To serve the System of National Accounts with statistics on services of good quality calls for a need to raise the field of vision even if it means crossing the border of the task of the Voorburg Group. It has to be stressed that the Handbook should be read continuously also in the future, since it contains other important recommendations, beside those

¹ In 1999, the UN Statistical Commission asked the Voorburg Group to focus on the measurement of the prices of services provided to enterprises in a hope of the overcoming of methodological difficulties within services price measurement by a broad cooperation among countries involved.

Also within the framework of the OECD-Eurostat Task Force on service prices in short-term statistics (STS), which began in 2002.

² Which became later on a law to follow within European Union by Regulation 2002/990/EC.

on appropriate service production recommendations concerning transactions of services like intermediate consumption and exports and imports of services.

The increasing globalization blurs the results of the traditional collection of economic statistics. It forces us to cooperate more across primary statistical subjects (prices, foreign trade, business structure a.s), perhaps even over the geographical borders, to check more and compare carefully. It forces us to read other type of manuals than we are used to if we will fulfil our mission on services statistics. Among others Manual on Statistics of International Trade in Services (United Nations, IMF, EU, OECD, WTO, 2002), Balance of Payments and International Investment Position Manual (BPM6, IMF 2008), XMPI manual (IMF 2004), coming SNA 2008 (UN), Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations (OECD) can be mentioned.

1.2 The planned aim of the case studies

The 23rd Voorburg Group Meeting (Aguascalientes, Mexico, September 2008) suggested monitoring the effect of outsourcing and the use of transfer prices by multinational enterprises (MNEs) especially within the computer services industry by case studies. It was planned that a rather small group of countries (US, India, Ireland and Sweden, under the leadership of France) would organise single meetings with one or two IT-MNEs³ in each country and carry out the treatment of transfer prices.

The behaviour of IT-MNE is well-known in general. For further information about practical behaviour of enterprises and the theoretical view on IT investments as a part of foreign direct investments (FDI), impact of exports and imports in computer services on measured GDP, impact of classification rules a.s, see Norrman (2007). The objective of the case studies was therefore to find a reasonable structure in IT-MNE's behaviour in connection with a couple of specific transactions, if possible.

This task was regarded as being possible to conduct in Sweden from the beginning. At present the conclusion is, despite the good relationship Statistics Sweden has developed with the big MNEs within the computer services industry, that this interesting and important task was not possible to solve.

If there is an acceptance for no result as a result, the conclusion of the trial mentioned above is:

Not a single MNE welcomed the discussion about that type of issue with statisticians on an official level. Other countries have encountered similar problems.

The reason for not cooperating is probably the international bookkeeping rule about the valuation of intra-firm transactions. **Transfer prices are not allowed to be used** and the rule is applicable by the Swedish Taxation Authority and used since 2008.

Since it is very difficult to check how MNEs follow this rule, one can guess that transfer prices are being used. The fact is that the "big 4" (the four biggest MNEs within economic consultancy and business accountancy services in the world) are offering and advertising services provided on tax consultations and transfer pricing issues.

Actually, the subject itself became even more challenging because of this failure. It was important to find other sources of information.

³ Multinational enterprise classified to computer and related services.

This issue was investigated already by statisticians dealing with EXPI and IMPI of goods at the Price statistics unit at Statistics Sweden⁴ and the experiences of that project on goods products constituted a start for checking services. The connections to other type of statistics should be unravelled now in order to check how other sources of economic statistics handle this subject. The aim of the last resort is the consistency on the framework of measures of aggregate economic activity, namely the System of National Accounts (SNA) and the balance of payments (BPM).

2. Towards better statistics on services

2.1 Typical properties of services and globalization

There is no doubt today that services are tailored for different customers, they are consumed at the moment when they are being produced, and they cannot be stored. These are typical properties of services. With ongoing globalization services are more often produced also for non-residents outside the economic territory, thus the cross-border trade with services is continually increasing. Different procedures are also used to distribute services to customers.

Thanks to the characteristics of services, they tend to be delivered internationally mainly through direct investments enterprises located in the country of purchaser rather than through transactions among residents and non-residents. It is quite obvious today that both values of international transactions in services (mainly measured and collected for balance of payment) and their prices are suffering by an internal relationship within big global companies. Instead of trade values in real transaction prices, business is calculated in so called transfer prices which are actually internal prices among the entities of a single multinational company.⁵

The framework of the existing rules for the compilation of main economic aggregates (GDP, balance of payments) seems from time to time by economists as something incomplete that hampers the analysis of the globalization phenomena in the short term. On the other hand those rules are guaranties for the worldwide comparison among countries since these rules are accepted and broadly used.

Despite the unwillingness of multinational companies to open up themselves for these very sensitive issues, the worldwide economic statistical community continues to bring more light in the globalization story by just better following up the intentions behind the rules, recommendations and regulations also on other fields of statistics than we are used to do and by a broad cooperation.

2.2 Requirements on services statistics in Sweden

The Swedish Government Official's report "Development and improvement of economic statistics, (SOU 2002:18)" proposed several improvements to be done within those frameworks of rules. Strongly recommended were:

- **The development of producer price indices for services (SPPI)**
- **Better information concerning input structure** especially within service industries
- **The extension of number of kinds of services in foreign trade statistics.**

As an important user of economic statistics especially national accounts at constant prices the Bank of Sweden (Riksbanken) supported these recommendations. The bank expressed the needs of improvements of quality concerning foreign trade statistics in services in general and pointed out the needs of appropriate price indices in this area in particular. The majority of the

⁴ Kullendorff Martin, Transfer Prices in the Swedish Producer and Import Price Index, Statistics Sweden, (2008).

⁵ Merchanting causing problems to national accountants is not the subject of this paper.

development projects within this area have also been financed by Bank of Sweden during the last years.

2.3. The development of SPPI

The main purpose of developing SPPI was to create producer price indices for services designed for use in the Swedish System of National Accounts when calculating the production values of services at constant prices at product group levels in concordance with the European Union's recommendations and in accordance with the EU's time schedule given by the regulation 2002/990/EC.

Furthermore, the regulation above contains requirements how to deflate both exports and imports and intermediate consumption⁶. The regulation says that prices should be appropriate. When prices on the domestic and import/export markets are similar, thanks to competition, then producer price indices are sufficient for use as deflators for exports and imports at product group levels.

With exception of some particularly small product groups the coverage of SPPI in Sweden is rather sufficient today.

Still remaining to develop (both compared with EU regulation 2002/990 EC and the Swedish System of National Accounts) **are the appropriate methods for the estimation of prices and volumes for exports and imports of services.** This means that price indices used for deflation of exports and imports of services should reflect the actual import and export prices paid. When both price indices for export and import are on the place, then IMPI can be partly used also for deflation of intermediate consumption.

2.4. Development of appropriate deflators for foreign trade in services as a natural continuation of the development of SPPI

2.4.1 Needs and possibilities vary among countries and NSI

Since Sweden is a small economy in Northern Europe and despite the country's big size from a geographical point of view it is somewhat common sense for growing companies to go abroad and find new customers and markets. This is the main reason why cross-border trade always has been very important for both companies and the country as a whole. To have appropriate and reliable figures on Swedish foreign trade is important for the reliability of product accounts. If one can say that the openness of an economy is measured by the size of cross-border trade, then Sweden is doubtlessly an open and a globalized economy. The importance of foreign trade varies among countries but "**the smaller the country, the bigger problems**" as Martin Weale (University of Cambridge) expressed the effect of globalization and multinational companies on balance of payments and national accounts.

Total export related to GDP in Sweden accounts for 54 percent, total export of services related to GDP accounts for 16 percent. Total import related to GDP represents 47 percent, the total import of services amounts to 13 percent. Export of services account for 29 percent of all export in Sweden, while import of services accounts for 27 percent of all Swedish import. (2008)

National Statistical Institutions (NSI) are organised by different principles and the probability to initial success with the development of new price indices may vary. Since all main price indices (CPI, PPI, XMPI, PPP) calculated at Statistics Sweden are concentrated to Price statistics unit,

⁶ For example domestically produced products (goods and services) and imported products used as intermediate consumption should be deflated separately.

the know-how concerning experiences with the measurement of price indices on international trade is easy to reach, the staff is experienced already.

2.4.2 How to start with the development of price indices for foreign trade in services

Since it is costly to start developing price indices for foreign trade in services it is assumed here that collected figures (in current prices) are of sufficient quality.

The first step towards the development of price indices on export and import of services is to check if service prices on different product group levels differ on the domestic and international markets. If this is the case, then the easiest way to get export prices is to ask surveyed companies for service prices to non-residents as well. It is of course crucial to know the priority of a country's national accounts since the deflators will be primary used within the System of National Accounts.

The next step should usually be a pilot. In this case it is important to have in mind the influence of transfer pricing and different valuation in the domestic currency caused by using different principals for exchange rates. **A development and adoption of a common policy on NSI level regarding the treatment of transfer prices and valuation of foreign currencies** is helpful. In cases where there is no common policy yet, this work should be started before the pilot or go on parallel with the pilot.

Statistics Sweden will start the preliminary study organized as a project. The project is addressed to all units concerned by those problems. Since it is very important to know what kind of strategy the Swedish national accounts will promote and use, the participation of experts on national accounts is crucial.

The Price statistics unit at Statistics Sweden has done the first step named above by checking if prices differ on domestic and export markets for a couple of large services product groups. This effort resulted in some interesting findings:

- During the company visits it became clearer within which service product groups prices differ among domestic and export markets. To check the possible and most suitable method to start with the collection of prices to non-residents was also discussed with the company representatives.
- Since export prices on transportation products had already been surveyed and it was found that the prices were the same for residents and non-residents due to high competition, it was suggested to stop the collection of export prices. This will reduce the burden of respondents and also the costs of price index production at Statistics Sweden.
- Both the preliminary⁷ study and the study⁸ stated that the development of price indices on service export seems to be rather easier to start with than the import price indices of services. High costs of the development were stressed due to the fact that nothing has been done earlier within this area.
- To develop export and import price indices for products of computer services became one of the prioritized issues by Swedish national accounts.

⁷ Olsson Thomas, Price Indices for Foreign Trade in Services, Statistics Sweden, preliminary study, January 2008.

⁸ Olsson Thomas, Import and Export of Services, Statistics Sweden, June 2009.

The report of the study contains findings and addresses several of real problems and recommendations for the development of price indices on service export. Until now it has not been possible to realize what was then suggested, due to lack of resources.

2.5 Improvements concerning input structure in service industries

The distribution of the expenditure structure that enterprises within the service industries reported to Statistics Sweden has since 2000 achieved noticeable results. The cost structure in a particular service industry is surveyed on an intermittent base (with a cycle of 3-4 years)⁹ by the unit of Business structure. A from the beginning rather high rate of answers belonging to “other costs” has now decreased substantially. The rate of unspecified costs decreased apparently which means a high quality improvement of input to the Swedish System of National Accounts concerning service statistics.

The amount of costs of “subcontracted work and raw material” where off shored/outsourced activities usually occur is now distributed in concordance with product groups used within the SNA in Sweden.

2.6 Extended number of kinds of services in foreign trade statistics

As mentioned above, the Bank of Sweden (Riksbanken) financed, among others, a recently completed cooperation project between the unit of National accounts and the unit of Foreign trade which significantly increased the transparency of the code system used by the balance of payments (called EBOPS, Extended Balance of Payments service’s Classification) for the use within the System of National Accounts in Sweden¹⁰. This means that uncertainty concerning exports and imports on service products will decrease noticeably in the future.

2.7 Coordination and corporate affairs unit

In April 2004 a special group was established within the unit of Business data collection. Its task was to check all to Statistics Sweden delivered figures of MNEs in Sweden and describe the structure of MNEs. Since the work area of this “large enterprises” group increased substantially, the group became a unit on its own. Coordination and corporate affairs unit coordinates all data collection from MNEs and checks the results across several statistical subjects (salaries, turnover, number of employees, foreign trade, etc.) in order to discover or avoid inconsistencies. The unit built up special knowledge about MNEs in Sweden and cooperates with other units when difficulties occur. The unit checks all types of MNEs not only those dealing with services and the National accounts unit receive a more transparent picture of MNEs in Sweden.

2.8 Register of multinational enterprises

The register of multinational enterprises in Sweden is a part of an extensive work in Europe. A special group was established as a part of the Register unit at Statistics Sweden. The expectations are rather high especially on the possibility to check data across borders and among European NSIs. Until now not a single case has yet been tested.

Eurostat keeps the register of MNEs, but this is a cooperation project among Eurostat and NSIs. The legal basis is the Regulation (EC) No 177/2008 of the European Parliament and of the Council. Commission Regulation (EC) No 192/2009 implements the exchange of confidential register data between Member States which is a prerequisite for the functioning of the EuroGroups Register (EGR). The EGR is a network of registers, consisting of a central register

⁹ Lennartsson Daniel, The Pilot Survey on Intermediate Consumption for the Service industry in Sweden concerning reference year 2007- Special Focus on Computer Services, Transports and Waste Service Industries, Statistics Sweden, April 2009.

¹⁰ Camaco Jose, Improvement of Consistency between Foreign Trade in Services and the System of National Accounts, Statistics Sweden, April 2009.

kept at Eurostat and registers in each EU Member State and in EFTA countries. The central register contains information about multinational enterprises groups (MNEs) which have statistically relevant financial and non-financial transnational operations in at least one of the European countries (a multinational enterprise group is an enterprise group composed of at least two enterprises or legal units located in different countries).

The aim of the EGR network is to hold a complete, accurate, consistent and up-to-date set of linked and co-ordinated statistical registers, which offer compilers a common frame of multinational enterprise groups, global as well as truncated national groups, operating in the economy of the EU and EFTA countries.

The fact that so many European countries applied for derogations on different variables delivered to the register (EGR) is unfortunately jeopardizing the aim of the register and its function in the short term. (See appendix for more information.)

2.9 Guidelines and classification rules concerning outsourcing

The new European statistical classification of economic activities, NACE Rev. 2 (which became the regulation 1893/2006 within EU) provides the introductory guidelines and rules how to classify for example outsourcing (both in chapter 3, and in the annex II).

When outsourcing of support functions such as computer services, it is recommended to classify the contractor to the specific activity he is carrying out, in this case to 62.02 (Computer consultancy activities).

2.10 Important international groups on the globalization issue

Many international statistical groups deal with the globalization issue. The output of the following groups is important to follow:

The Group of Experts on the Impact of Globalisation on National Accounts

The Eurostat Task Force on multinational enterprises

The Working Party on International Trade in Goods and Trade in Services Statistics.

3. Swedish computer services in a mirror of globalization from a statistical point of view

3.1 Foreign trade figures on computer services

Computer services represented about 4.0 percent of value added of the market producers and producers for own final use in Sweden (2007).

Export as a share of turnover of the computer services industry (NACE Rev 1.1 72, NACE Rev.2 62, 63,) accounts for 14 percent according to the unit of Structural business (SBS, 2007). The propensity to export seems to be the same for enterprises of different size (micro, small, medium and large). Working at the cutting edge of the computer technology or specialised niche services beside of a too small domestic market were main reasons for exporting - as companies voluntarily answered during the Business services development project conducted by Eurostat. It is near to assume that the export capacity in the Swedish computer services industry is slowed down by high average personnel costs. There is no information about the import figures within SBS which is collected on annually basis.

Export figures on computer services activities collected by the unit of Foreign trade and industry are much higher and Swedish national accounts use mainly information obtained from the unit of Foreign trade and industry. Figures from the unit of Structural business on the other hand help to provide the distribution key of production within the system of supply and use tables.

Figures delivered to national accounts from both the unit of Structural business and the unit of Foreign trade and industry are in current prices and include internal transactions of MNEs. The difference can be explained in several ways. Other enterprises than those primary classified to computer services industry deal with international trade in computer services is one of them. The amount of internal transactions as a part of imports and exports is not known but MNEs are followed by Coordination and corporate affairs unit of Statistics Sweden. All type of statistics belonging one MNE is checked together, the objective is to discover inconsistency.

According to national accounts export figures amounted to about 23 percent of the production value within product group 7220 Software supply services and other related services, import figures amounted to about 14 percent of the total use of this product group.

Sum of exports on 72 (computer services and related activities) accounts for 10 % of total export of services. Sum of imports on 72 accounts for about 5 percent of total import of services (2008).

Computer consultancy services constitute the major part of both computer services export and import.

3.2 The quality improvements already achieved

The very high rate of other costs reported by enterprises within the computer service industry (26 percent in 2005 as presented during the 22nd Voorburg Group meeting in Seoul, South Korea) decreased to 4 percent (by the latest intermittent survey of computer services industry, 2007) due to the new intermittent survey mentioned in 2.5.

The second highest rate of costs within computer services industry were costs of “subcontracted work and raw material” which amounted to 24 percent in 2005 and where offshored/outsourced activities usually occur is now distributed in concordance with product groups used within the SNA in Sweden. As a result of that distribution a lot of interesting figures come up; half of all costs in subcontracted work are paid for computer services (outsourced/off shored, etc. Unfortunately the distribution of contractors is not known.

All above indicate the importance of computer services both for the Swedish economy and its international trade. All improvements done during the past years (mentioned in 2.5 – 2.9 of this paper) indicate good possibilities to check and coordinate figures collected on computer services industry and products and by that guarantees a sufficient quality of current figures which was mentioned as an important requirement for the start of the development of price indices for foreign trade within computer services.

3.3 Possible effect of domestic SPPI used as deflator for foreign trade

SPPI for computer services and related activities are used by national accounts since 2002. As it was described at The charge-out rates applied to the Swedish computer consultancy services¹¹ only charge-out rates for activities of programmers, computer consultants etc. working in Sweden are collected. When those indices are used by Swedish national accounts as deflators also within other parts of S/U-tables, the question can be raised if it is appropriate to use SPPI for computer and related services as deflators for import. Are imports of computer and related services at constant prices constantly underestimated or overestimated by that? If this is the case, then the whole domestic supply of computer and related services at constant prices can be underestimate/overestimated which may cause other inappropriate adjustments.

¹¹ The paper for the 23rd Voorburg Group meeting, Mexico 2008.

As for today, we cannot answer the question above since price indices for foreign trade do not exist anywhere. When several economists were recently asked, different believes were their answers.

A common sense, that price indices are frequently used during balancing procedures of the calculation of GDP, can hardly justify the ignorance of this weak point especially when it is known that different markets use different prices.

Both mentioned studies of the Price statistics unit found that prices of computer services vary between domestic and export markets and that is why the development of price indices on export of computer services was suggested. To ask enterprises (already within the sample for computer services prices) for prices of services delivered to non-residents seems to be a good start.

3.4 Specific and real problems

A couple of problems here were the use of internal prices within MNEs, outsourcing and the valuation of foreign currency by using different exchange rates.

3.4.1 Transfer Prices

Inter-firm prices caused by inter-enterprise relations within a MNE are difficult to obtain. They can also change during the current year of accountancy and they are difficult to adjust.

Without any further explanations literature such as Manual on Statistics of International Trade in Services (United Nations, IMF, EU, OECD, WTO, 2002), Balance of Payments Manual (BPM5), coming BPM6 (IMF), XMPI manual (IMF 2004), coming SNA 2008 (UN) and Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations (OECD) describe this issue.

The suggested treatment of transfer prices in above mentioned manuals is to adjustment them to real transaction price levels. Asking our national accountants one cannot be as sure anymore that the issue can be solved this way in reality. As this subject was discussed among experts on national accounts during the last meeting of Working Group on the Impact of Globalization on the SNA (WGIGNA) this summer, it is not sure that the right recommendation in theory brings the expected results in practice. It may instead cause many unexpected problems that have to be solved within the SNA. The problem is lack of consistency of sources and the solution is the coordination towards the consistency.

4. Conclusions

Despite the unwillingness of the IT-MNEs to make clear how they deal with transfer pricing in different situations, many efforts have been done to increase the quality of services statistics during the last decade. These seem to have reached desirable effects in general and noticeable improvements on computer services statistics in particular.

SPPI for computer consultancy and related services was among the very first producer price indices for services that Statistics Sweden developed. It seems to be time to continue the development of SPPI by the development of foreign trade indices for those product groups.

Possible problems caused by globalization such as the use of transfer prices, off shoring and the valuations of foreign currencies can be overcome. The treatment of exports and imports in the System of National Accounts is identical with that in the balance of payments accounts. The consistency between new coming SNA 2008 and new Balance of Payment Manual (BPM6) is of course desirable.

It is perfectly clear what to do from the theoretical point of view. If those two frameworks of main economic aggregates will serve as the base, the pragmatic solutions will be found by consistency among the content of both current values and prices collected as a leading star.

Appendix

The EuroGroups Register (EGR) (as stated on Eurostat website)

The EuroGroups Register (EGR) is a network of registers, consisting of a central register kept at Eurostat and registers in each EU Member State and in EFTA countries. The central register contains information about multinational enterprises groups (MNEs) which have statistically relevant financial and non-financial transnational operations in at least one of the European countries (a multinational enterprise group is an enterprise group composed of at least two enterprises or legal units located in different countries). Registers in the EU Member States and in EFTA countries contain information regarding MNEs active in the respective countries and are fully consistent with the central register.

The EGR integrates data coming from commercial providers and from the National Statistical Authorities. The different sources are compiled to unique MNEs in the central register at Eurostat in co-operation with the concerned statistical authorities of the EU Member States and EFTA countries.

The aim of the EGR network is to hold a complete, accurate, consistent and up-to-date set of linked and co-ordinated statistical registers, which offer compilers a common frame of multinational enterprise groups, global as well as truncated national groups, operating in the economy of the EU and EFTA countries, together with their constituent legal units and enterprises and the ownership and control relationships between legal units.

The key benefits of this register are:

A co-ordinated framework for EU statistics related to globalisation

The EGR provides a service to organise and co-ordinate sampling, data collection and the production of statistics on globalisation in the Member States, EFTA countries and Eurostat. The EGR is a facility for the use and integration of data from different statistical areas by providing linkages between MNEs and the observation units used in those areas.

Minimising the administrative burden on enterprises

The EGR offers the opportunity to use data available in existing sources (private as well as public and statistical sources), especially in the case of micro, small and medium-sized enterprises. Where data can be collected only from businesses, the survey frames can be co-ordinated, in place of separate survey frame decisions by individual statistical domains or Member States and EFTA countries.

Quality improvement

The EGR process has the potential to create synergies by mobilising the information, knowledge and resources within Member States and EFTA countries: a network of statistical business registers. This offers the opportunity to maintain the EGR register, as well as the national registers, to a high level of quality.

Efficient solution

The concept behind these registers offers the opportunity to minimise costs. This relates not only to the costs of the acquisition of data (e.g. negotiations with private data providers) but also to the costs of the Member States and EFTA countries in maintaining their national statistical registers.

Key stakeholders and main users are likely to consult the following statistics:

Inward and outward foreign affiliates statistics (a source to identify the target population and to provide EU-wide harmonisation of the ultimate controlling institutional unit);

Foreign direct investments (harmonisation and co-ordination on ownership relations);

Trade of multinational groups (creation of new statistics on trade by business characteristics just by linking registers);

International trade in goods and services;

Science and technology indicators (e. g. the competitive situation of enterprises in the global R & D environment);

Intra-group trade (to help to identify potential intra-group trade and even measure it at aggregate level when linked to administrative data);

National accounts and balance of payments (improved institutional sector classification, separation of special purpose entities).

The EGR is developed in phases. A pilot project for the EGR was carried out in 2006. In 2009 the first EGR production cycle started with coverage of 5 000 MNEs. An extension of the coverage to 10 000 MNEs is planned for 2011 and full implementation should be achieved by 2013.

The legal basis for the EGR is provided by Regulation (EC) No 177/2008 of the European Parliament and of the Council. This Regulation establishes a common framework for business registers for statistical purposes and includes the provision for the creation of a register on multinational enterprise groups with their constituent legal units. Commission Regulation (EC) No 192/2009 implements the exchange of confidential register data between Member States which is a prerequisite for the functioning of the EGR.

The Community Statistical Programme 2008-2012 foresees the implementation of a Community statistical register on multinational enterprise groups and their constituent units.

The development of the EGR is also part of the 'Programme for the Modernisation of European Enterprise and Trade Statistics' (MEETS), which is decided by the European Parliament and the Council.

Data

The EGR includes individual enterprise data on the following units and characteristics:

legal units: identity number, name and address, identity number of the truncated group to which the legal unit belongs, characteristics on control and ownership of legal units, principal activity code (4-digit NACE level), number of persons employed, turnover, institutional sector;

truncated enterprise groups: identity number, name, identity number of the truncated group head, type of enterprise group, principal activity code (2-digit NACE level), number of persons employed, consolidated turnover;

global enterprise groups: identity number, name, identity number of the global group head, number of persons employed globally, consolidated global turnover.

EGR data serve national statistical institutes and national central banks to help produce statistics and are not disseminated by Eurostat to the public.

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