

Economic ownership

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Joint presentation from Sweden and UK

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Outline of presentation

- Reasons for implementing economic ownership in statistics
- Economic ownership in different statistical areas
- Examples of transactions in a large MNE
- Swedish initiatives
- Challenges
- Eurostat initiatives
- UK initiatives
- Conclusions

The concept of economic ownership

- Economic ownership is a **national accounts (NA) and balance of payments (BoP) concept**.
- According to **ESA 2010** the economic owner is the unit that accepts the risks and rewards of using the goods/service in production.
- The economic owner usually coincides with the legal owner but it may be different in exceptional cases.
- In relation to globalization the **ownership of input** is important for the classification of units in a goods for processing relationship.
- In the context of **globalisation**, this principle can have significant impact on how the output/value added and trade in goods and services are attributed to individual countries.

Reasons for implementing economic ownership in statistics

- **Classification:** the owner of inputs in goods for processing undertakes the same activity as the unit processing the inputs.
- **Goods sent for processing** should be recorded in the same way within a country and between countries.
- **Productivity analysis:** to improve the description of the relation between inputs and outputs.

National accounts (NA) and Balance of Payments (BoP)

Economic ownership is mentioned in all regulations and manuals. The principle **should be applied** in both NA and BoP.

Regulations and manuals:

- **NA:** ESA2010
SNA2008
NACE Outsourcing manual 2014
Guide to Measuring Global Production 2015 (UNECE)
Frascati manual for R&D 2015

Report on IPPs 2020 (OECD/Eurostat)
- BoP:** BPM6 2008

PRODCOM and SBS

- **PRODCOM** statistics measure industrial production in the EU in terms of sold production and quantities. The principle of economic ownership **is NOT applied**, as PRODCOM covers production carried out within the national territory only.
- Goods sent abroad for processing should not be counted as production.
- **SBS** measures the structure, activity, competitiveness and performance of businesses in the EU. It is often used as a source statistic for NA.
- One of the main sources are the enterprises' financial statements. The principle of economic ownership **is applied** in the cases where legal ownership is equal to economic ownership. An example where a difference between legal and economic ownership occurs is a **financial lease**.

STS and EBS (former FRIBS)

- **STS** describes the most recent developments in the areas of industry, construction, retail trade and services in the EU.
- The principle of economic ownership **should be applied**. However, due to the time constraints and because of the use of administrative sources, deviations from the principle might occur.
- **EBS (FRIBS) enters into force in 2021 and will cover PRODCOM, SBS and STS**

“The principle of economic ownership as described in Regulation (EU) No 549/2013[ESA 2010] **shall be applied** in European business statistics. It shall be implemented to the extent possible, taking into account justified user needs, data availability, cost and burden implications, and insofar it is not in contradiction with the principles and purposes of certain business statistics laid down in this Regulation.”

Prices

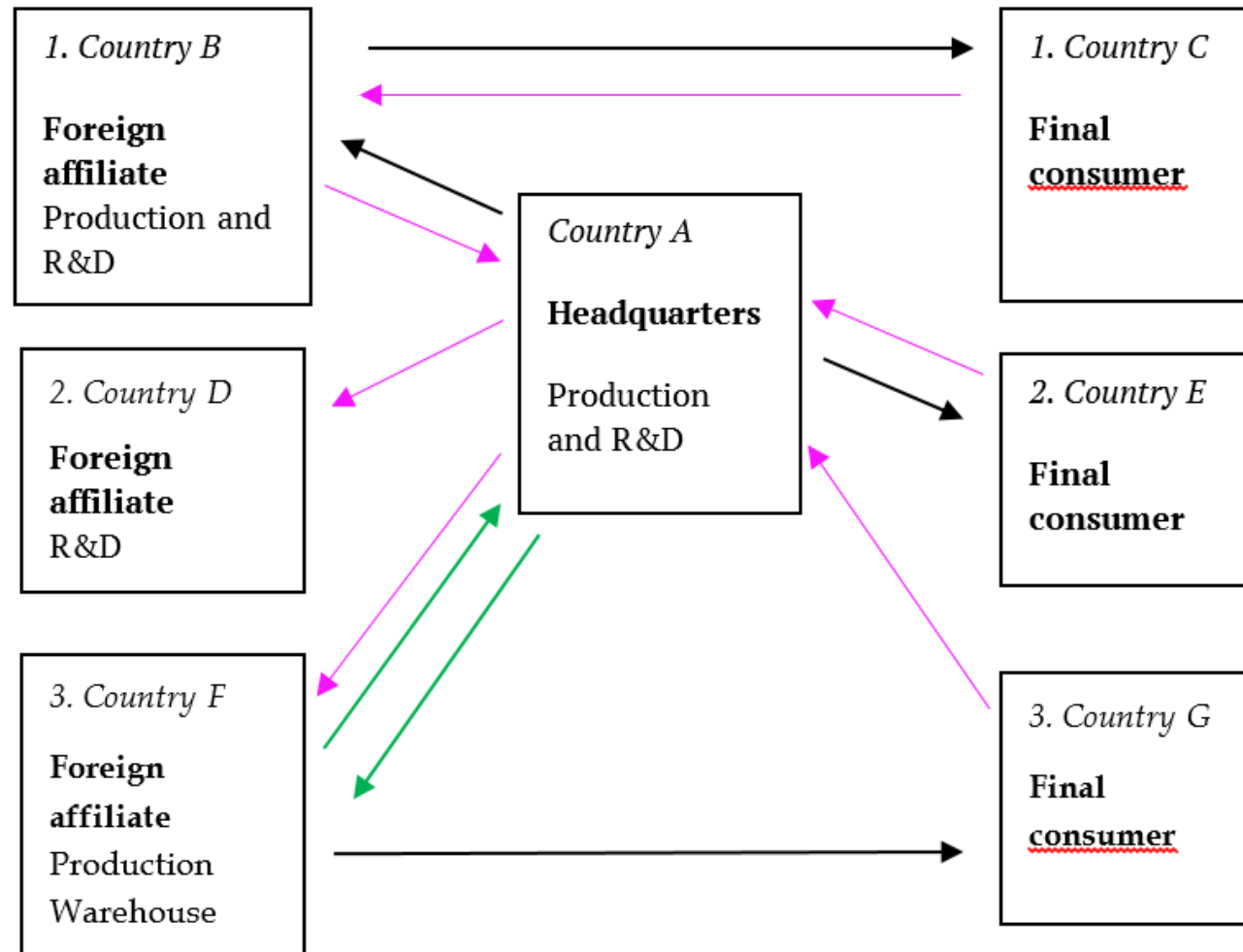
- Main references for Producer prices are:
 - IMF's "Producer Price Index Manual: Theory and Practice. (2004)
 - Eurostat-OECD's "Methodological Guide for Developing Producer Price Indices for Services" (2014)
 - Eurostat's Handbook on industrial producer price indices (PPI) (2012)
 - Handbook on prices and volume measures in national accounts (2016)
- In Europe, (S)PPIs are also covered by STS regulations
- Limited insights and guidance about how economic ownership principle apply to prices data collection
- Existing known challenges in collecting prices from large multinational/complex enterprises (e.g. Transfer prices)
- Links to other business statistics regulation (e.g. Prodcom) impact on PPI collection and compilations




International trade statistics (ITGS, ITSS)

- European statistics on international trade in goods (**ITGS**) are the source of information about exports, imports and the trade balances of the EU. The principle of economic ownership **is NOT applied**, since the border crossing is more important.
- Many countries use customs data as a source for ITGS.
- European statistics on international trade in services (**ITSS**) measure the value of foreign trade in services. The principle of economic ownership **should be applied** according to BPM6.
- There are challenges connected to measuring international flows of IPPs. It is hard to distinguish a payment for a transfer of economic ownership of IPP and charges for the use of IPP.

Flows of goods, R&D and Payments in a MNE

Basic facts: The headquarters of the MNE is situated in Country A, where both manufacturing and R&D activities take place. A warehouse is situated in Country F.

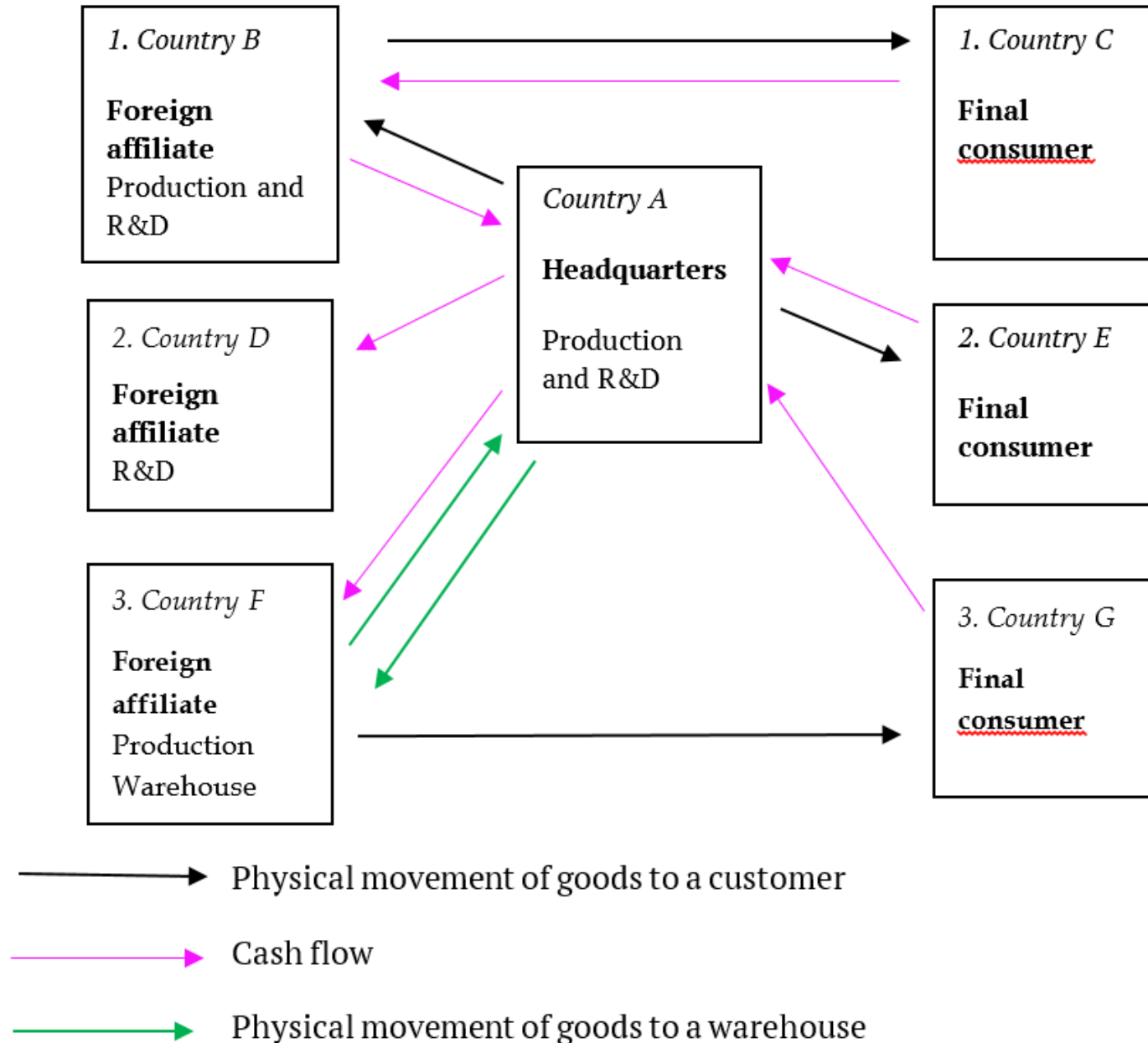


-  Physical movement of goods to a customer
-  Cash flow
-  Physical movement of goods to a warehouse

In the first case
Country A sells goods to a foreign affiliate in Country B. The affiliate completes the order with additional goods, before shipping the goods to the final consumer in Country C. The final consumer pays the invoice to the foreign affiliate in Country B whom passes on the right share to the headquarters.

Flows of goods, R&D and Payments in a MNE

In the second case the headquarter uses an IPP developed and owned by a foreign affiliate in Country D, in the production of goods on behalf of a customer in Country E. The final consumer pays the invoice to the headquarters who passes on a license fee to Country D.



In the third case a foreign affiliate in Country F produces and owns goods to be sent to a final consumer in Country G. However, the payment for the delivery is not sent directly to the producer. Instead the payment goes to the headquarters. The headquarters passes the whole amount on to Country F.

The affiliate also has a warehouse used for storage of goods, produced and owned by the headquarters. This results in frequent flows of goods and cash between Country A and F.

Swedish initiatives

- Large Cases Unit since 2004
- Profiling since 2015
- Paper on globalization 2018
- Harmonising questionnaires for SBS, PRODCOM, STS and ITSS 2020
- Paper on the Swedish position on globalization 2021

Challenges for the economic statistical system

- There are differences between statistical domains on what principal of ownership that is used, mainly PRODCOM and ITGS.
- There are differences between the concepts of ownership used in company accounts and NA/BoP, for example concerning financial leasing, ownership of Intellectual Property Products (IPP), the treatment of branches etc.
- One challenge is to decide how to classify (according to ISIC) the enterprises outsourcing a large amount of their production to other countries.

Classification Based on Economic Ownership

- **NACE Outsourcing manual** states that classification should be based on ownership of materials inputs
 - > *“A principal outsources a part of a manufacturing production process to a contractor. The principal has to be classified as if it were carrying out the complete production process. The contractor is classified with units producing the same goods or services for their own account”.*
- **Guide to Measuring Global Production Manual** suggests that the classification also should be based on ownership of Intellectual Property Products (IPPs).
- Ownership of IPPs is very challenging to address
 - > differing views/interpretations regarding ownership.
 - > Complex IPP structures in MNEs and sensitive Issue.

Eurostat initiatives

- European Profiling program since 2015
- https://ec.europa.eu/eurostat/cros/system/files/essnet-esbrs1_del-wp3-a1.22a_guidelines-profiling.pdf
- European System of Statistical Business Registers
 - > (EuroGroups Register EGR)
- Early-warning system (EWS) 2017 to Present
- Consistency work – Large Case Units (LCU's)
- GNI MNE pilots

UK initiatives

- **ONS's Business Profiling Team**
 - Established team whose focus on ensuring correct structures (Enterprises and Groups) on UK's Business Register for most Complex Enterprise Groups.
- **Large Cases Unit**
 - Focus on Data – Coherent and consistency
 - Account Managed with Tailored Questionnaire
- EWS and GNI Pilot and Globalisation Work



Conclusions

- Challenging Issues to address
Many outstanding
- **Lessons Learnt**
 - Importance of communication and collaboration
 - > Internal Collaboration between Business Statistics and NA/BoP
 - > Good working Relationships with MNEs
 - Accountancy Support is crucial!
 - Requires International Collaboration.



Thank you for your attention!

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