



# Swedish case study: determining the economic ownership of IPP

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# Content

1. General about working with Globalization in Sweden
2. Case study: determining the economic ownership of IPP





# 1. Working with Globalization at Statistics Sweden

Brief description:

- First cases of merchanting related to offshoring discovered in the late 90s
- Large Case Unit (LCU) created in 2004
- Senior advisers group at the NSO: globalization a permanent subject. Case studies in Compilation file





# 1. Working with Globalization at Statistics Sweden

- Compile in a single document standardized information on globalization related key variables:
  
- Objectives:
  1. Work in a more standardized way: same solution can be applied for the similar problems
  2. Common understanding of the problems within Statistics Sweden and the Swedish Central Bank
  3. Documentation of MNEs

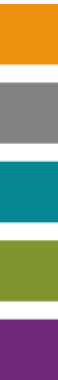




# 1. Working with Globalization at Statistics Sweden

The document gives detailed descriptions in a structured way of the following variables

1. Which role the Swedish enterprise plays in the group
2. Activity of the Enterprise in Sweden
3. Income
4. Ownership of the material inputs
5. Income from activities abroad
6. Industry classification
7. Registration of the transactions in the SBS, STS and NA
8. Ownership of the IPP
9. R&D for own use according to R&D survey
10. Problems with production/intermediate consumption
11. Problems with foreign trade
12. Foreign direct investments





## 2. Case study: determining the economic ownership of IPP

- Background
  - a) Traditionally, Globalization in Sweden has often meant that Swedish Enterprises have off-shored certain parts of the production process (mostly manufacturing) while the production of the R&D has remained in Sweden.
  - b) Mergers with and acquisitions of /by foreign companies have also played a major role.
  - c) In most cases, determining the economic ownership of IPP has been relatively easy by looking to the International Trade in Services Statistics, SBS, R&D survey and the UNECE:s "Guide to measuring Global Production"
  - d) But there are exceptions





## 2. Case study: determining the economic ownership of IPP

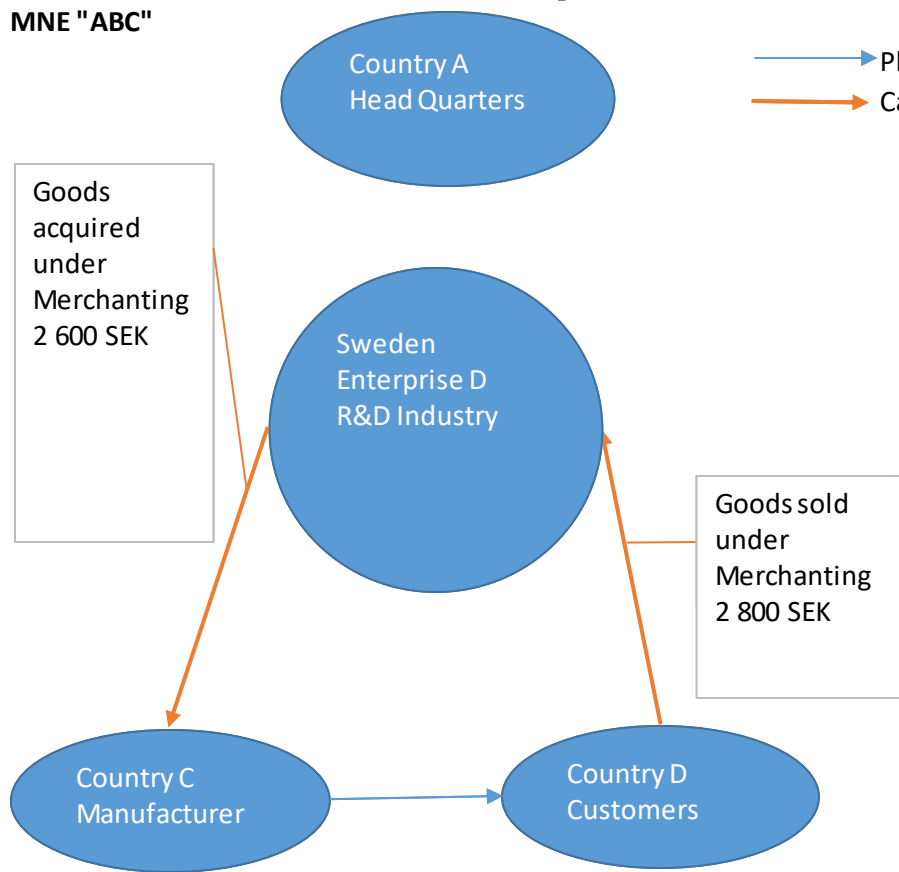
- Description
  - a) The multinational enterprise (MNE) “ABC” produces and sells goods worldwide and has its headquarters located in “Country A” and subsidiary companies in several countries. One of these subsidiary companies, Enterprise D, is located in Sweden
  - b) Enterprise D produces trade margins (merchanting) but their employees in Sweden work almost exclusively with R&D. Enterprise D is classified in the R&D industry
  - c) Apparently, Enterprise D does not play any role in the production process of the final product other than producing R&D





## 2. Case study: determining the economic ownership of IPP

MNE "ABC"



—→ Physical movement of goods  
 —→ Cash flow (change in ownership)

Figures reported to the NSO

Source	SBS	ITSS	R&D Survey
	Merchancing margins	Merchancing margins	Incurred cost for R&D*
<b>Variabel</b>			
<b>Value in million SEK</b>		200	200
			87

\*exclusive costs for material assets and before profits and capital depreciation addition to market valuation.







## 2. Case study: determining the economic ownership of IPP

- Challenges:
  - a) Challenge 1: income mostly from trade when the activity in Sweden is R&D. Classifying the company in R&D industry is not 100 percent clear.
  - b) Challenge 2: which unit owns the IPP asset produced in Sweden? What does The decision tree in the chapter 4 of the UNECE's "Guide to measuring Global Production" say about this case?





## 2. Case study: determining the economic ownership of IPP

- Decision tree: determining economic ownership of an IPP observed in global production
- 1. The unit is part of a multinational enterprise (MNE) **Yes**
- 1.1. The unit produced the IPP **Yes**
- 1.1.2. The Unit is a main IPP producer **Yes**

But,

- 1.1.2.1 The unit either receives compensation for IPP development from the parent or sells IPP original to the parent. **No**
- 1.1.2.2 The unit receives income from royalties or licenses to use, ...or it can be assumed that it is expected to obtain income from royalties and licenses in the near future. **No**





## 2. Case study: determining the economic ownership of IPP

- Depending on which enterprise has the economic ownership of the R&D produced by the unit in Sweden, the merchandising and production of this unit can be seen as:
  - 1) Alt. 1: The Swedish unit owns the result of R&D. Production of R&D is registered as capital formation and merchandising income can be seen as sold licenses in connection to the owned IPP
  - 2) Alt. 2: The Swedish unit “sells” the produced R&D during the period to the headquarters but gets paid through merchandising as compensation for the work carried out. Therefore lower production (no production for own final use) than in alt. 1 and no FGCF in Sweden.





## 2. Case study: determining the economic ownership of IPP

- Current treatment at the NA:

	Million SEK
<b><i>Output</i></b>	
Merchanting margins	200
R&D for own use	100
<b><i>Expenditure</i></b>	
Export (merchanting income)	2 800
-Export(merchanting cost)	2 600
GFCF	100





# Conclusions and remarks

- Is there any other source and/or criteria that can be used in similar cases that can help us to determine the economic ownership of the IPPs?





Thank you for your  
attention!

