



**Meeting of the Group of Experts on National
Accounts, LCU seminar
UNECE - Geneva, 10-12 April 2019**

***European Profiling
to better measure MNE groups' activities***

Eurostat, Unit G1, Coordination and infrastructure development

Background on European Profiling

- Eurostat and NSIs cooperate to achieve a cross-border, consistent view of MNE groups:
 - to understand the structure, activities of the MNE groups both at global level and at national level;
 - to address inconsistencies coming from different practices, views and tools between the NSIs.
- A collaborative process between:
 - the GDC NSI (The NSI of the country where the global decision centre of the MNE group is located);
 - The partner NSIs (those of the countries where this MNE group has legal units or branches);
 - Eurostat which developed a secure platform which allows the NSIs to exchange and store the results: the *Interactive Profiling Tool* (IPT).

The results of European Profiling

- Common experience under the ESRs project (since 2014)
 - 410 MNE groups profiled (at least once)

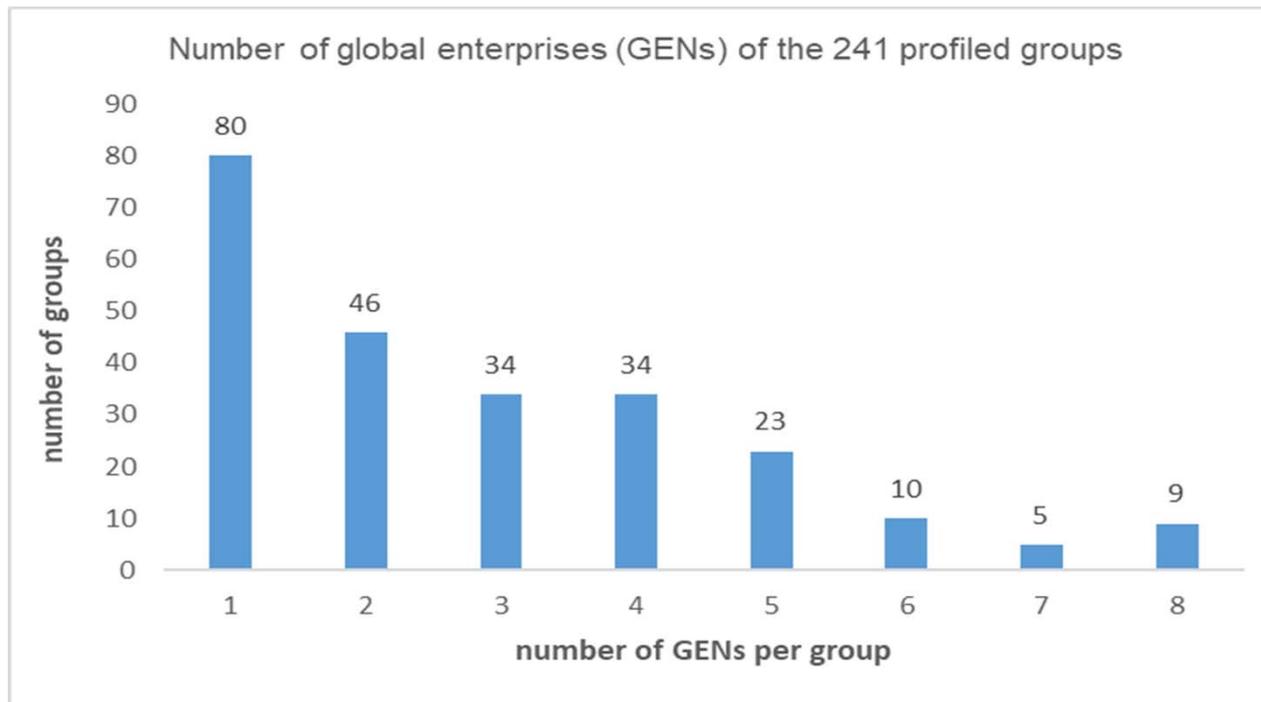
- Last IPT/Profiling cycle with 26 NSIs:
 - 117 MNE groups profiled by 19 NSIs;
 - Another 7 NSIs mostly testing.

- As a result, in 2018:
 - 241 MNE groups stored in the IPT, chosen as very large and complex;
 - They employ 6,5 M employees and control 28,176 legal units;
 - European profiling provided 692 Global enterprises (GENs).

Profiling practices are quite homogeneous among the NSIs

- From 1 GEN to 8 GENs per MNE group in each of the 3 profiling cycles;
- A third of groups have just one GEN.

Graph 1: Number of MNE groups according to the number of their GENs



Source: Eurostat, grants 2015-2016-2017 on European profiling

The largest MNE groups are present in more countries

Table 1: Indicators on the MNE groups' structure according to their size

Groups by size:	Number of groups	employees / group	median of countries involved	Legal units / group	Groups of 1 GEN (%)	GENs /group
less than 5,000 employees	83	2.313	8	33,8	30	2,7
5,000 to 9,999 employees	52	7.443	17	74	36,5	2,7
10,000 to 49,999 employees	78	24.491	32	158,9	29,4	3,1
50,000 employees or more	28	143.854	36	326,1	32,1	3
<i>All</i>	<i>241</i>	<i>27.043</i>	<i>16</i>	<i>92,6</i>	<i>33,1</i>	<i>2,9</i>

Source: Eurostat, grants 2015-2016-2017 on European profiling

- Strong connection between the number of countries in which MNE groups are present and their size (columns 2 vs 3);
- No connection between the size and the number of GENs (columns 2 vs 5-6);
- No connection between the number of countries in which MNE groups are present and the number of GENs (columns 3 vs 5-6).

The internal structure of a MNE group is greatly determined by its activity

Table 2: Indicators on groups' internal structure according to the main activity

	Number of Groups	employees / group	Groups of 1 GEN (%)	GENs /group	Legal units /group	employees /GEN	employees /legal unit	
Manufacturing: C	132	22.851	32,6	2,7	117,4	8.333	195	more complex
Electricity and Gas: D	13	18.849	7,7	4,8	114,7	3.890	164	many GENs
Construction: F	10	14.688	70,0	2,2	118,6	6.732	124	many LeUs
Wholesale trade : 46	7	3.830	42,9	1,7	35,9	2.234	107	smaller
Retail trade: 47	16	53.655	31,3	3,1	109,1	17.520	492	larger, simpler
Business to Business: M, N, JA, JC	19	49.731	47,4	1,7	123,5	28.633	403	larger, simpler

Source: Eurostat, grants 2015-2016-2017 on European profiling

- Manufacturing groups are more complex than those performing trade or Business to Business (in NACE, sections M and N, divisions JA and JC);
- Construction groups have many legal units, but 70 % consist of one GEN;
- Electricity and Gas groups have far more GENs (elaborated later).

Shifting from the legal units to the GENs consolidates ancillary activities in the main activity

Table 3: Employment distribution (%) for Manufacturing groups in sample

	Manufacturing	
	employment distribution (in %) in GENs	employment distribution (in %) in LeUS
C: Manufacturing	<u>95,2</u>	<u>75,2</u>
D: Electricity Gas	0,2	0,1
F: Construction	0,5	1,6
46: Wholesale trade	0,6	<u>10,9</u>
47: Retail trade	0,1	1,0
H: Transportation	0,1	0,9
JA, JC, M, N : B. to B.	2,2	<u>6,0</u>
Others	1,1	4,4
All	100,0	100,0

Source: Eurostat, grants 2015-2016-2017 on European profiling

- In manufacturing, legal units in wholesale trade, R&D, engineering;
- The GENs are far more realistic than legal units in terms of size, sector, variables (case of wholesale trade legal units just billing the production).

For electricity-producing MNE groups, Profiling provides a different vision of the activity

Table 4: Employment distribution for the 12 GEGs producing electricity (NACE 3511)

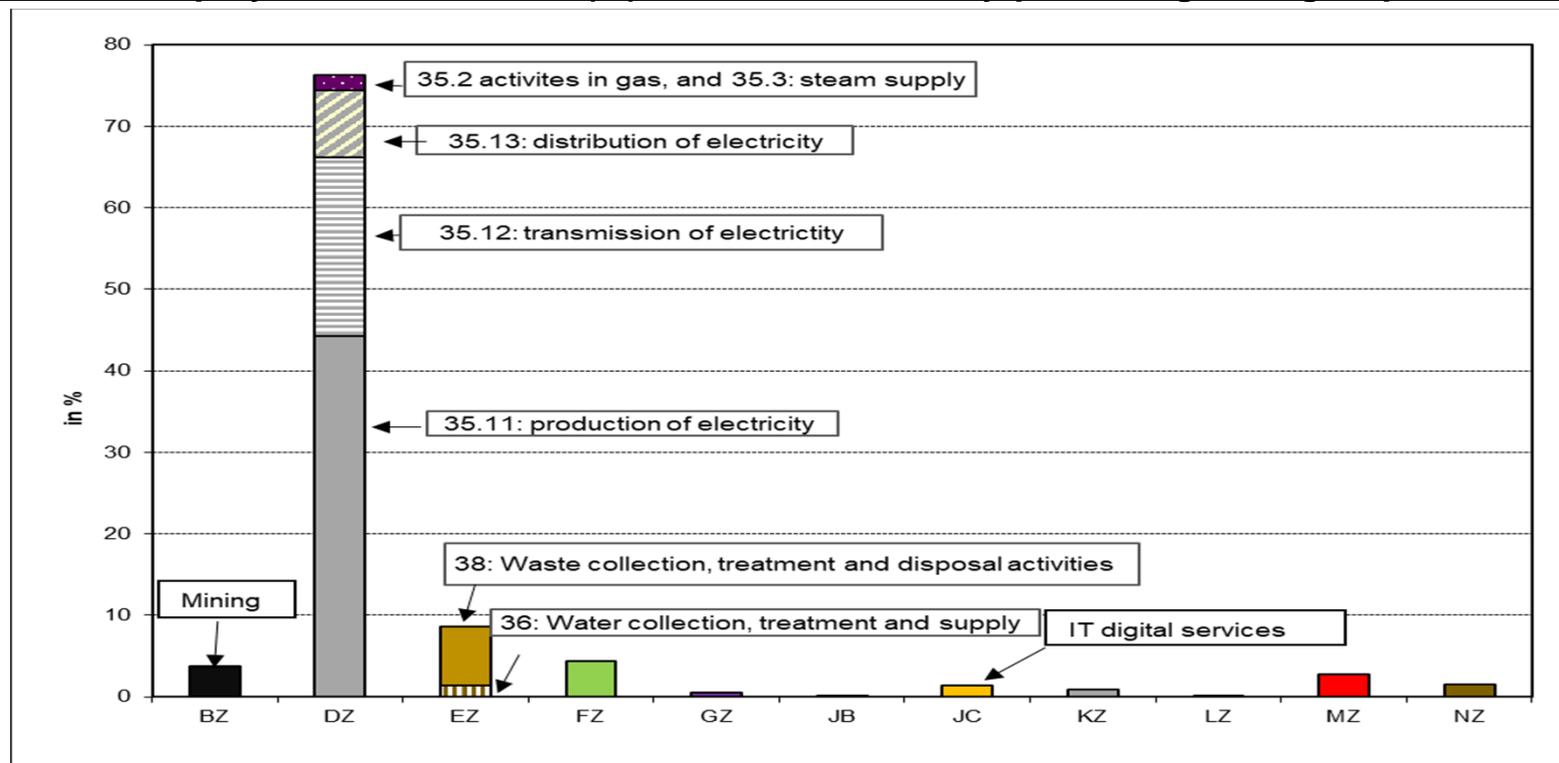
	GENs of the 12 groups number	employment distribution (in %)	
		in GENs	in LeUS
C: Manufacturing	0	0,0	<u>5,2</u>
D: Electricity Gas	34	<u>76,0</u>	<u>61,3</u>
F: Construction	1	4,4	5,6
46: Wholesale trade	1	0,6	0,8
47: Retail trade	0	0,0	0,0
H: Transportation	0	0,0	2,4
JA, JC, M, N : B. to B.	10	<u>5,7</u>	<u>15,2</u>
Others	10	<u>13,4</u>	<u>9,5</u>
<i>All</i>	56	100,0	100,0

Source: Eurostat, grants 2015-2016 on European profiling

- 12 MNE groups in one NACE: 100 % of the employment in production of electricity (3511);
- 56 GENs in 21 NACE: 76 % of the employment in Electricity Gas;
- 1,450 legal units in 139 NACE: 61% of the employment in Electricity Gas.

For electricity-producing MNE groups, profiled GENs reveal business model and synergies

Chart 2: Employment distribution (%) for the 12 electricity-producing MNE groups in GENS

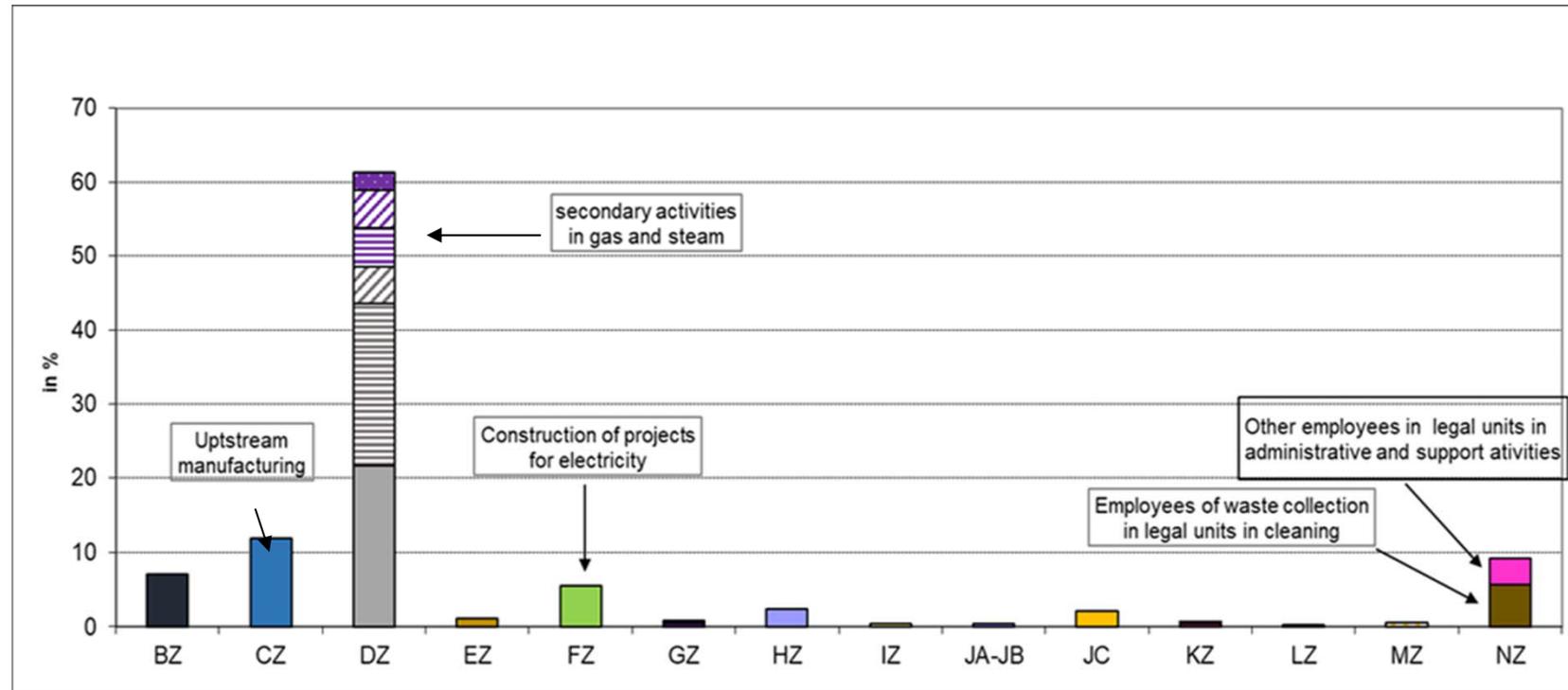


Source: Eurostat, grants 2015-2016-2017 on European profiling

- GENs in mining of coal (upstream activity);
- GENs are separate within the electricity process (competition policy);
- GENs in waste collection, water supply, digital (market synergies);
- All these GENs have a “certain autonomy”, exchange at market prices.

For electricity-producing MNE groups, legal units reflect the legal internal structure

Chart 3: Employment distribution (%) for the 12 electricity-producing MNE groups in legal units



Source: Eurostat, grants 2015-2016-2017 on European profiling

- Ancillary and no market legal units in manufacturing and construction;
- Secondary activities in gas transportation, trading and stream supply;
- The employees who perform waste collection are employed by legal units in cleaning (shift from column EZ to column NZ).

This example of electricity-producing groups shows the relevance of the unit *Enterprise*

- Enterprises compared to groups:
 - Groups are the level of strategic decisions, of most financial flows;
 - But groups may have several GENs with a “certain degree of autonomy”, market-oriented and performing different activities.
- Enterprises compared to legal units:
 - The activities revealed by the legal units are those identified from a legal point of view, not from an economic point of view.
 - Legal units without economic substance skew the size concentration:
 - Relevant activities which appear in legal units (as secondary activities in gas) can be preserved with the unit *Enterprise*.
(lessons learnt elaborated in the paper)

European profiling improves the view of MNE groups' activities

With the legal units, statisticians depends on the groups' internal organisation in legal entities:

- Wrong view of the groups in terms of structure and performance;
- Important biases in sector distribution and in size concentration.

Through profiling, statisticians define enterprises with an economic meaning:

- These enterprises have an economic substance, a "certain degree of autonomy" and are market-oriented;
- The enterprises delineated within a group reveal its business model, productive or market synergies.

In addition, European Profiling provides cross border consistency:

- Common understanding of the MNE groups by the European NSIs;
- Sharing of experiences, findings and common tools.

Current and future developments

- 27 NSIs participate in the current cycle of European Profiling
- Current developments of European Profiling:
 - Implementation of the integration between the European Groups Register and Profiling;
 - A European Profiling programme is being designed;
 - A European Profiling Recommendations manual to published in Q2.2019.
- Other papers with quantitative results in project

Thank you for your attention!

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