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 ESBRs 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

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

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

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

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

<table>
<thead>
<tr>
<th>Manufacturing</th>
<th>in GENs</th>
<th>in LeUS</th>
</tr>
</thead>
<tbody>
<tr>
<td>C: Manufacturing</td>
<td>95,2</td>
<td>75,2</td>
</tr>
<tr>
<td>D: Electricity Gas</td>
<td>0,2</td>
<td>0,1</td>
</tr>
<tr>
<td>F: Construction</td>
<td>0,5</td>
<td>1,6</td>
</tr>
<tr>
<td>46: Wholesale trade</td>
<td>0,6</td>
<td>10,9</td>
</tr>
<tr>
<td>47: Retail trade</td>
<td>0,1</td>
<td>1,0</td>
</tr>
<tr>
<td>H: Transportation</td>
<td>0,1</td>
<td>0,9</td>
</tr>
<tr>
<td>JA, JC, M, N : B. to B.</td>
<td>2,2</td>
<td>6,0</td>
</tr>
<tr>
<td>Others</td>
<td>1,1</td>
<td>4,4</td>
</tr>
<tr>
<td>All</td>
<td>100,0</td>
<td>100,0</td>
</tr>
</tbody>
</table>

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)

<table>
<thead>
<tr>
<th>GENs of the 12 groups number</th>
<th>employment distribution (in %) in GENs</th>
<th>in LeUS</th>
</tr>
</thead>
<tbody>
<tr>
<td>C: Manufacturing</td>
<td>0</td>
<td>0,0</td>
</tr>
<tr>
<td>D: Electricity Gas</td>
<td>34</td>
<td>76,0</td>
</tr>
<tr>
<td>F: Construction</td>
<td>1</td>
<td>4,4</td>
</tr>
<tr>
<td>46: Wholesale trade</td>
<td>1</td>
<td>0,6</td>
</tr>
<tr>
<td>47: Retail trade</td>
<td>0</td>
<td>0,0</td>
</tr>
<tr>
<td>H: Transportation</td>
<td>0</td>
<td>0,0</td>
</tr>
<tr>
<td>JA, JC, M, N: B. to B.</td>
<td>10</td>
<td>5,7</td>
</tr>
<tr>
<td>Others</td>
<td>10</td>
<td>13,4</td>
</tr>
<tr>
<td>All</td>
<td>56</td>
<td>100,0</td>
</tr>
</tbody>
</table>

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

- 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).

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

- **Other papers with quantitative results in project**
Thank you for your attention!

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