UNITED NATIONS

E

Economic and Social Council

Distr.
GENERAL

ECE/CES/GE.42/2007/4
30 March 2007

Original: ENGLISH

ECONOMIC COMMISSION FOR EUROPE   **STATISTICAL COMMISSION**

CONFERENCE OF EUROPEAN STATISTICIANS

Meeting of Experts on Business Registers

Tenth meeting
Geneva, 18-19 June 2007
Item 4 of the provisional agenda

GLOBALIZATION AND BUSINESS STATISTICS: EXPERIENCE IN DEVELOPING
ENTERPRISE GROUP DATA, INCLUDING WORK ON MULTINATIONAL
ENTERPRISES (MNEs) AND ON PROFILING

EUROGROUPS REGISTER PROJECT – ROAD MAP FOR THE FUTURE

Submitted by EUROSTAT

The meeting is organised jointly with the Commission of the European Communities
(Eurostat) and the Organisation for Economic Co-operation and Development (OECD)

Summary

The present paper was prepared on request from the CES Steering Group on Business Registers for presentation and discussion at the joint UNECE/Eurostat/OECD Meeting in Geneva, 18-19 June 2007. It informs about the state of art of Eurostat's project on the European register of multinational enterprise groups, on the main results of the pilot project carried out in 2006 and the measures to be taken to ensure a rapid and secure implementation of the EuroGroups Register (EGR).

The paper provides the basis for an in-depth discussion of requirements for statistics related to globalisation, by emphasising the necessity of data on groups of enterprises to ensure the quality of statistics where financial links between enterprises in different countries play an important role.

GE.07-21646

I.   INTRODUCTION

Background and brief history

1.   The Statistical Commission and Economic Commission for Europe and the Conference of European Statisticians in their Report of the fifty-third plenary session (Geneva, 13-15 June 2005) agreed in doc. WP 3 that the Multinational Enterprise project study be terminated in its current form; and asked the Bureau to decide on the best approach how work can be continued in other fora, where members of the UNECE are included, and to find the means to keep the non-EU members of the UNECE fully informed about the work of the starting of Eurostat's project on the European register of multinational enterprise groups (MNE). This document informs about the state of art of that project, on the main results of the pilot project carried out in 2006 and the measures to be taken to ensure a rapid and secure implementation of the EuroGroups Register (EGR).

2.   The Community Statistical Programme 2008-2012 foresees the implementation of a Community statistical register on MNEs and their constituent units, the EGR. The new Business Register (BR) Regulation will give the legal basis for the EGR. It is close to adoption by the European Parliament and the Council.

Policy context

3.   Many EU statistics related to globalisation have been or are currently being regulated (statistics on foreign affiliates, balance of payments, external trade etc.). The information on MNEs is either a prerequisite or a vital element for their compilation and the group data must be consolidated at European level. The data on groups are necessary to ensure the quality of statistics, where financial links between enterprises in different countries play an important role, e.g. productivity data. While respecting the confidentiality restrictions, the group data can also be used as a direct source of statistics for population of MNEs, their demographic events, employment volume and share, economic concentration and indices.

Main approach

4.   The EGR will be established in the following way:

        (a)   Eurostat will acquire and consolidate information from private sources on the
                structure and characteristics of MNEs operating in Europe;
        (b)   This information will be sent to Member States, which complement and check it
                with what exists in their national statistical BRs and send updated files back to
                Eurostat;
        (c)   Eurostat will consolidate the enterprise group data for European and national
                uses.

Next steps

5.   In order to ensure continuity of the EGR project Eurostat has initiated the following measures:

(a)   The preparation of the draft of the Commission Regulation on mandatory data exchange between Eurostat and national statistical institutes (NSI) has started;

(b)   The chapters in the BR Recommendations manual which concern the EGR are under preparation and drafts will be available in December 2007;

(c)   Acquisition of private data and IT development of the EGR are ongoing, the first phases to be finalised in October 2007 and March 2008;

(d)   The proposed Task Force will be established to coordinate and to support the contribution of NSIs to the EGR project in autumn 2007.

6.   The EGR coverage will be enlarged by a stepwise approach: From the 600 MNEs in the pilot, to 1000 in 2007, up to 10 000 planned for 2008. The enlargement to full population of MNEs is foreseen in the new BR regulation, but before that the specific needs of stakeholders at European and national level need to be studied more precisely.

A.   Background

7.   The forthcoming new BR Regulation is close to adoption by the European Parliament and the Council. It replaces the Regulation from 1993 and takes into account new requirements. The fragmented picture the EU Member States currently have on MNEs operating on the European market has caused increasing harmonisation problems for several statistics affected by globalisation. The NSIs often have data on the largest all-resident groups, but for MNEs mainly the links between resident units (truncated enterprise group). The direct and indirect control links to foreign units are often incomplete and inconsistent between countries.

8.   The new BR Regulation includes mandatory transmission of individual data on MNEs and their constituent units to Eurostat and feedback of harmonised information to the 27 EU Member States, and to the 4 European Free Trade Association (EFTA) countries, if they choose to participate. This exchange of data necessitates the creation of a Community register of MNEs, the EGR.

9.   The registration of MNEs requires a strong coordination at the European level. The EGR is a key element of the infrastructure necessary to collect data on globalisation, as discussed in point H. As the EGR will contain basic data on MNEs active on the EU territory and of their components, new information on group and business demography can be gained from such a register.

10.   The EGR project requires strong commitment. Without that its objectives will be reached only partly. The stepwise approach described below is a necessity in its building phase but in the end it should cover all MNEs operating in Europe. Covering only the largest groups or obtaining only little input from some countries would drastically reduce the usability and quality of the EGR both on European and national level.

B.   Main Results of the Pilot Project

11.   The pilot project for the EGR has been finalised at the end of 2006 covering a feasibility study on creating and maintaining the EGR at Eurostat. The following main results are available.

(a)   The current EGR contains information on 600 MNEs with at least one group member of the total (about 80,000) inside the EU and connected to the global group head inside or outside the EU by direct or indirect control links checked by 4 NSIs (Netherlands, Germany, Hungary and United Kingdom);

(b)   A mechanism of exchange of information between the central EGR and 4 NSIs is available to complement their national business registers with relevant data on MNEs operating on their territory;

(c)   The EGR will improve the information collected at NSIs on control and ownership links to get a good picture of MNEs operating in the EU;

(d)   The created EGR is prepared for measures to exchange confidential data via Electronic Dataflow Administration and Management Information System (eDAMIS) to secure data transmission between Eurostat and Member States (both ways);

(e)   The EGR has been integrated into the IT environment of Eurostat;

(f)   Corresponding tests of the EGR application showed that it is possible to run all necessary processes, e. g. loading, transformation, validation and consolidation (limited data exchange with one NSI included) with appropriate performance;

(g)   Completed documentation for the EGR is available, e. g. description of the business process, system architecture, methodological data model and data structure, user guide and methodological documentation;

(h)   Matching process of legal units from different private sources can be automated, when national identification numbers (from tax registers or other administrative sources) are available in private sources and at NSIs. This would essentially minimise the use of clerical resources;

(i)   Integration of data coming from different sources showed differences in the information for the same enterprise group. The use of only one private source would generate the risk of an incomplete picture of enterprise groups on European and possibly on national level.

C.   Actions in 2007

12.   In order to secure continuity of the EGR project and to ensure a rapid full implementation of the EGR on European and national level Eurostat has initiated the actions below.

1.   Commission Regulation

13.   The new BR Regulation covers the exchange of confidential data on MNEs between Eurostat and Member States exclusively for statistical purposes. According to this there is need for an implementing Commission Regulation on the exact data transmission. This legal basis has to define the purpose, scope, format, security and confidentiality measures as well as procedures for the data exchange. A first preliminary outline on the Commission Regulation for a mandatory data exchange between NSIs and Eurostat has been discussed in the Working Group on "Business Registers and Statistical Units" in November-December 2006. It was agreed to proceed with the preparation on the basis of the outline in Eurostat and discuss the details in the Task Force in the third quarter 2007.

14.   The Commission Regulation has to be in force before most of the Member States can transmit their data to Eurostat; until that their data transmission is optional. Agreement on the Commission Regulation with Member States will require in-depth clarification on the confidentiality of each piece of information to be transmitted. The new BR Regulation also gives the possibility of a five-year derogation concerning enterprise group characteristics. Due to the importance of the EGR, derogations should be limited to the shortest possible period.

2.   Recommendations Manual

15.   Although the EGR needs a separate manual, the existing BR Recommendations Manual has to be updated and completed due to the new Regulation and to take into account the experiences from the pilot project. The legal unit and enterprise group variables, their definitions, proxies used etc. have to be the same in the Manual and in the EGR, as well as the responsibilities concerning the updating of the enterprise group, its different parts and its continuity. The development of the EGR may also mean frequent updating of the Manual.

3.   Acquisition of Data

16.   The objective is to obtain information from private sources on the structure of MNEs operating in Europe to complement what already exists in national statistical business registers of the Member States. It is foreseen to acquire files with the reference date 31 December 2006. The data selection includes the most important groups in terms of employment from 27 EU Member States (also from the smallest countries) limited to one single data provider in this first phase (for test purposes; enlarged to several data providers in the next phase). The information to be provided should cover the main 1000 MNEs with the majority of them having the group head in the EU.

17.   The acquired data will comprise the constituent units and their characteristics, and the links of control and ownership. In addition, the provided data has to be suitable to be processed with the help of the EGR application of the pilot project mentioned in point B. In complement to the data delivery, the bidder will report on the possibilities to extend the scope beyond what is required in the tender. He will produce some statistics on the concentration of MNEs in the EU (part of total added value or of total employment covered by the most important groups) and globally.

4.   IT Development

18.   The objective of this action is to improve, enlarge and complete the central EGR software as a web application with regard to the available procedures and to add a user interface for both Eurostat and the NSIs. This enlargement should be a starting point to serve for all EU Member States, their business registers and their national statistical system. Products and know-how of the pilot project must be reused to a maximum degree to ensure continuity of the whole EGR project. The second objective is to create a common, structured and standardised data communication between the central EGR and the environment at NSIs (both ways) in order to allow them to analyse its content and to match their national data with extracts from the EGR.

D.   Common Tasks

19.   The pilot project for the EGR documented impressively that the creation and maintenance of the EGR has to be regarded as a common task between Eurostat and the Member States. The measures of Eurostat are intended to support a rapid start with the common tasks for the EGR. As long as the implementing Commission Regulation is not in force NSIs can voluntarily exchange data with Eurostat. On this basis the initial idea is that NSIs improve and complement the information on the units of the enterprise group located on their territory and Eurostat consolidates improved data for the whole European level in the EGR and sends corresponding information back to NSIs for national needs. At the moment the practical consequences for NSIs imply two different ways of contribution dedicated to the EGR.

(a)   Receiving consolidated data of the EGR originated from the first acquisition of private data by Eurostat and sending checked data as well as feedback on data quality to Eurostat (after matching the received data by identity numbers or by names and addresses; adding missing data, correcting wrong data);

(b)   Contribution to the development of a structured data communication via XML for NSIs and Eurostat.

20.   These contributions and also future common tasks for the EGR project (e. g. draft of a Commission Regulation for data exchange between Eurostat and NSIs, coordination of the cooperation with stakeholders) should be coordinated by a Steering Group which will be created in the form of a Task Force for the EGR. The Task Force needs to make available national and European expertise on multinational enterprise groups to ensure and improve commonly the quality of the EGR in respect to the needs of stakeholders of the EGR on national and European level. Eurostat has clarified the purpose of this Task Force and asked Member States for their readiness to substantially contribute with their expertise in relation to the EGR. One third of NSIs have signalled their willingness to participate. This composition of members of the Task Force will ensure a result-oriented group.

E.   Time Schedule for 2007 and 2008

21.   To ensure continuity of the EGR project the next key milestones for Eurostat will be the following.

Eurostat		
Mar 2007 – Oct 2007		First acquisition of private data (from one single data provider)
Mar 2007 – Dec 2007		IT enlargement (part 1) of the EGR at Eurostat and at 27 NSIs
Oct 2007		Task Force with representatives of Commission and Member States to coordinate the further development of the EGR and to improve its quality
Oct 2007		First draft of the required Commission Regulation on data exchange between Eurostat and EU Member States
Oct 2007 – May 2008		Second acquisition of data (from several data providers)
Dec 2007		Recommendations manual drafts for updated chapters available in English
Dec 2007 – Feb 2008		Assessing the results of the first data acquisition and of the IT enlargement (part 1)
Feb 2008 – May 2008		Vote in the SPC on the Commission Regulation. Adoption by the Commission.
Jan 2008 – Dec 2008		IT enlargement (part 2) of the EGR at Eurostat and at 27 NSIs
Dec 2008 – Feb 2009		Assessing the results of the second data acquisition and of the IT enlargement (part 2)

22.   In addition to the measures of Eurostat the mobilising of human resources in all NSIs (for full implementation) is essential. The following tasks are proposed.

National Statistical Institutes	
Oct 2007 and onwards	Support to the IT enlargement process of EGR at national level introduced by Eurostat in cooperation with the Task Force
Oct 2007 and onwards	Improving quality of the national and central parts of EGR coordinated by the Task Force
2008 and onwards	Support to investigate the incorporation of the national EGR to the national business register (including linking) and the national statistical system

F.   Open Issues beyond 2008

23.   The following issues have to be considered for the work beyond 2008.

(a)   The new BR Regulation foresees the full coverage of MNEs, there is no threshold for their inclusion. With the second data acquisition, to be finalised in 2008, Eurostat is aiming at 10,000 groups registered in the EGR. After that an in-depth examination of the coverage has to be done. At this stage the participation of an enlarged number of stakeholders on European and national level will be essential to define the development of the future content and coverage of the EGR. This analysis should also regard the rising importance of small and medium-size MNEs, especially in the EU internal market;

(b)   The new BR Regulation also states that exchange of data may take place between Eurostat and national central banks (NCB) as well as between Eurostat and the European Central Bank (ECB). After the first Commission Regulation on the mandatory data exchange between Eurostat and NSIs has been adopted, the second Commission Regulation on the optional data exchange between Eurostat,

ECB and NCBs is planned for beginning of 2009. Its implications have to be specified for all the parties concerned, including the NSIs, which have to explicitly authorize this data exchange. The role of NCBs in this also needs clarification, as BR data exchange between NSIs and NCBs is allowed according to the Balance of Payments Regulation and the new BR Regulation. Other ways of cooperation between Eurostat and ECB should cover exchange of experiences in building the EuroGroups register and the Centralised Securities Database of ECB. The methodological coordination concerning the two databases for the definitions used, variables included and identification of units has started and need to be intensified.

G.   Coverage and Contents of the EuroGroups Register

24.   After the stepwise enlargement described above, the final aim of the EGR is to cover all MNEs, which have at least one unit in the EU and their constituent legal units globally. Local units are excluded except in the case when they are branches dependent on foreign legal entities. Enterprises are not separately recorded; this means that their economic characteristics (NACE code, employment, turnover, institutional sector) have to be recorded for legal units. In the pilot project this approach worked but the impact in the future development needs to be studied in more detail.

25.   The enterprise groups are defined according to the definition given in the EU Statistical Units regulation, by using the definition of control given in the European System of National Accounts. The majority (over 50 per cent) shareholding of voting rights can be used as proxy to control. In addition to MNEs, minority ownership links (between 10 and 50 per cent) both upward to shareholders and downward to associates, between national and first foreign unit (which is not part of the control chain) are recorded, because they are used in foreign direct investment statistics.

26.   The EGR could in principle cover all the MNE units and their characteristics in the BR regulation, but for practical reasons this is not feasible. The exclusion of local units and enterprises was already mentioned. All the enterprise group characteristics of the BR regulation are included and the great majority of the legal unit/enterprise characteristics (several identification, demographic, economic/stratification, link with the group, control and ownership characteristics).

27.   A number of additional important characteristics can be obtained from the private providers. These include for instance additional identifiers used, both consolidated and unconsolidated data (according to international accounting standards IAS, where possible) for employees, turnover and total assets, and whether the unit is publicly traded or not. Other economic data are also available and the EGR foresees addition of characteristics, but their usability is not clear at the moment, mainly because the amount of other economic data available depends on national legislation; thus it varies by country and needs further research. Thus the stepwise addition of stakeholders to the Steering Group with the development of the EGR is essential.

H.   Uses of the EuroGroups Register

28.   Within the European Statistical System the stakeholders are the NSIs and Eurostat. Additionally, many European Commission Directorate-Generals, NCBs, ECB, OECD, and UNECE use or produce statistics in this area.

29.   The EGR will be used for statistical purposes only and its main function is to serve the production of globalisation-related statistics, both on national and international level. A short (non-exhaustive) description of the main uses is presented below. A more detailed discussion on these and additional uses is available from the Roundtable on business survey frames, session 4, Cardiff 2005 (see Eurostat CIRCA website). The main uses of the EGR can be summarized in the following way:

(a)   A basic tool (infrastructure) for several national statistics related to globalisation (from the Eurostat feedback to member states);

(b)   A tool to ensure and improve the quality of international statistics related to globalisation. The better quality at national level improves the quality at European level;

(c)   A tool to increase the efficiency of surveys by considering the sample design at European level;

(d)   A tool to distinguish units belonging to enterprise groups. This is a necessity for confidentiality treatment and separation of SME enterprises and enterprise groups, both at national and international level;

(e)   Production on certain rough basic statistics on MNE demography and to monitor the development of their role in national, European and world economy.

Business Registers

30.   Improving national statistical business registers by information (units, control and ownership links and characteristics) on MNEs is the basic feature. The BRs are used as the pivot for the development and harmonisation of other statistics, in the NSIs and also in the NCBs, when they produce globalisation-related statistics.

Foreign Affiliates Statistics (Inward and Outward)

(a)   The EGR is the key that enables production of harmonised Foreign Affiliates Statistics (FATS). Inward FATS are mainly produced by linking data from Structural Business Statistics (SBS) to the MNE to which the enterprise belongs. Outward FATS include few compulsory variables (more variables are included in the FATS pilot studies) for European MNEs according to foreign country they are located. Especially for outward FATS it would be useful to find new ways of data collection, not only to get consistent figures, but also to reduce burden on enterprises;

(b)   FATS use the concept of "ultimate controlling institutional unit" (UCI) for defining the control chains. It is the same as "group head" used in the BRs and can include natural persons. "Affiliate" means the same as "subsidiary" (BRs and

IAS), that is, a unit controlled directly or indirectly. The inclusion of branches is the same as in BRs;

(c)   FATS are also interested in joint ventures, which play an important role especially in smaller countries. They can be separated in the EGR as well. As secondary priority the minority owners of the group head can also be interesting.

Foreign Direct Investment Statistics

(a)   Core Foreign Direct Investment (FDI) statistics are based on lasting interest, that is ownership of 10 per cent or more. There is a need to know the whole chain of control due to the use of a consolidated system (further investments done by subsidiaries should be included). Geographical attribution of investment is done according to first shot country principle, but additional statistics are planned using ultimate beneficial controller or owner(s) and ultimate beneficial subsidiary/associate(s). FDI statistics are a source that provides partial data on international sourcing (offshoring);

(b)   Statistical surveys are generally used to compile the data and samples are drawn either from business registers or from separate FDI registers in the NCBs. The EGR can thus improve the national registers (and vice versa), moreover, it could lead to rationalization at national level and to use a single register instead of two overlapping registers.

Enterprise Groups' International Trade and Intra-group Trade

(a)   Data from the EGR can be used to create new important statistics just by combining the EGR and trade register information by common identifiers: the contribution of (domestic or foreign controlled) MNEs and also all-resident groups to international trade;

(b)   The identification of MNEs, including units located outside the EU, can be used for surveying intra-group trade flows. The sampling scheme on national level can also be improved with the additional information on importers and exporters.

Science and Technology Indicators

31.   The surveys on Research and Development (R&D) units can be improved from the knowledge that they are part of a MNE. The same is true for R&D variables in inward and outward FATS. The EGR can also give information on the locations of R&D globally according to the units' activity codes and other characteristics, although the quality of the data outside of the EU will be lower.

Survey on international sourcing

32.   An ad-hoc survey on international sourcing is currently carried out in 13 Member States. The survey focuses on the relocation of production of goods or services. The survey frames of Foreign Affiliates Statistics will be used to further target the population of enterprises to be surveyed. Ad-hoc survey relating to globalisation will be facilitated with the EGR in place.

Balance of Payments and National Accounts

33.   Business registers can be used as survey frame for BoP surveys and with the inclusion of institutional sector their link national accounts becomes much stronger. The existence of so-called special purpose entities (SPEs); units that are foreign-controlled and own subsidiaries abroad; they don't usually produce or trade goods or services and they employ no one or very few staff) has caused problems for various statistics: foreign direct investment, balance of payments and national accounts. The EGR could help in detecting them by standardizing the control links, possibly also in standardizing the classification of these units. The issue needs further discussion with the statisticians from the statistics mentioned above.

SME statistics

34.   According to Commission Recommendation 2003/361/EC, SMEs are defined by their size, by employment (below 250 persons employed full-time), turnover or balance sheet total. However, there is an additional restriction that they have to be independent and not part of an enterprise group. If this is ignored in SME statistics, as has been done, the statistics are not consistent with the recommended definition. The independence criterion should start to be applied not only by taking into account the truncated group, but the global group from the EGR.

Risk of disclosure of confidential data

35.   To regard confidentiality in the European context and especially to protect data of SMEs, a full picture of enterprise groups is indispensable. A country may publish data on three enterprises and consider it as non-confidential. However, in a market with three suppliers, two of the enterprises could be linked to a foreign enterprise group and the NSI does not know that and will publish the data. Then, it is easy for the enterprise group behind these enterprises to get information about its competitor. From this it follows that if the structures of the groups are not known precisely, this could harm the enterprises and decrease their willingness to participate in statistical data collection.