Measurement of multiterritory enterprises - introduction

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Definition – BPM6 4.41

• “Some enterprises may operate as a seamless operation over more than one economic territory. Although the enterprise has substantial activity in more than one economic territory, it is run as an indivisible operation with no separate accounts or decisions, so that no separate branches can be identified. Such enterprises may have operations including shipping lines, airlines, hydroelectric schemes on border rivers, pipelines, bridges, tunnels, and undersea cables. Some NPISHs also may operate in this way.”
Challenges and recommendations

- Multiterritory enterprises (MTE) are non-existent as a concept in the model of national accounts (NA).
- The real world multiterritory enterprises are in the NA always allocated to separate and clearly defined economic territories and thus to separate nations.
- In practice, conducting this allocation is often challenging and several measurement issues have to be dealt with:
  - both related to the methods used and
  - to the data available.
- Recommendations (if difficulties with identifying separate branches):
  - To split the economic activities of MTE per country on the basis of ‘prorating’ or
  - To create ‘notional units’
  - The creation of notional units may give rise to imputations of cross border financial transactions which may be difficult to account for in practice.
Structure of the chapter

• Introduction
• Relevant concepts applicable to multiterritory enterprises in the national accounts
  – Institutional units and multiterritory enterprises
  – Rules for establishing notional units
• Case studies
• Challenges with regard to source statistics
• Recommendations
Concepts applicable to multiterritory enterprises

• Link between institutional units and MTE
  – One fundamental rule is that one economic unit can be resident in one and only one economic territory, and thus resident of one and one country only
  – The residents of a country are those units with a centre of predominant economic interest on its territory but exceptions may be made for multiterritory enterprises that operate in a seamless operation over more than one economic territory
  – Regarding crossborder activities, the SNA underlines the importance of data for each national economy, and recommends to prorate the operations in MTE according to an appropriate enterprise specific indicator of the proportions of operations in each territory
Rules for establishing notional units

• The international recommendations states that a notional unit, separate from the institutional unit of its head office, should be established if (BPM6 4.27 and 2008 SNA 26.30):
  – it has **substantial** production in a territory outside that of its head office,
  – the operations can be **separated** from the rest of the entity and **identified** as an institutional unit, i.e., as a branch,
  – it has a **complete set of accounts**, including a balance sheet, or it is possible and meaningful to compile these accounts if they were to be required
Case: Large construction projects

- Does not necessarily meet the definition of MNE but is included for completeness
  - If it takes more than a year to complete the construction activity, and
  - if the project is managed through a local site office,
  - the operations usually satisfy the criteria for identification of a branch and a notional unit should be established

- The chapter will include a case study related to the Øresund connection (road and train link between the Sweden and Denmark, crossing the Baltic sea)
  - During the construction phase, four individual construction syndicates were established, responsible for different part of the project
    - Two of the syndicates were legally registered in Denmark, and the other two in Sweden
    - Statistical reporting to both countries
    - Gross capital formation and construction production were registered in the National Accounts of the two countries according to the registration of the syndicates
  - Regarding the operation of the connection, two notional units are established (one Danish and one Swedish)
    - Both the production of the link services provided by the consortium and the intermediate consumption etc are prorated in accordance to the ownership of the consortium (50-50 %)
    - The prorated data are reported directly from the Swedish company to Statistics Sweden
Case: Cross-border pipelines

- Often one will find pipelines that passes through a territory, but is not operated by a separate legal entity in that territory.
- The pipeline should be recognized as constituting a branch if there is a substantial presence and availability of separate accounts.
- In cases in which such operations are not separate institutional units, there may be payment of rent to a notional unit owning the land or a long-term lease of land, or there may be a multiterritory enterprise.
- Case studies – from Norway and Italy
  - Both these are example where, rather than creating a notional direct investment enterprise in the territory where economic activities of a permanent nature are performed, the economic flows are regarded as exports by the country that owns the pipeline.
  - For both these examples the conclusion is that prorating is difficult as no suitable prorating factor exists.
- Question: Transportation of gas (via pipelines) in the Baltic Sea from Russia to Central Europe is taken care of by the company Nordstream, registered in Switzerland and owned by Russia, Germany, France and Netherlands. Doen anybody know the recording in the different countries?
Case: Cross border natural resources – petroleum reservoirs

- In 2008 SNA (4.15) it is underlined that extraction of subsoil resources can only be undertaken by resident institutional units.
  - An enterprise that will undertake extraction is deemed to become resident when the requisite licences or leases are issued.

- Two case studies,
  - **Norway**: Extraction of oil from a field that is crossing both the Norwegian and British territory
    - Prorating according to ownership shares
  - **Australia**: Treatment of the economic activity (development of petroleum deposits) in the Timor Sea
    - Special challenge since there is no defined political or maritime boundary that can be used in the determination of economic territory
    - A definition following political boundaries would result in overlapping economic territories and a double counting of economic activity
    - For statistical purposes it has been decided to treat the Joint Petroleum Development Area (JPDA) as being part of the economic territory of both Australia and Timor-Leste
Challenges with regard to source statistics

- Mainly related to the prorating of the operations
- What is an appropriate enterprise specific indicator?
- Where appropriate, special surveys should be conducted for tracking multiterritory enterprises, and for use in developing prorating factors
- Administrative data can be used in combination with special surveys
- Best practices in survey design should be shared among statistical agencies
- Compilers in different countries should try to share data with one another to develop consistent data and avoid data gaps
- Measurement problems may be mitigated through
  - either new methods and/or
  - enhancing existing methods with better data sources
Delegates are asked

• to inform on the relevance of the issue for their country;
• to provide relevant case studies and share experience in recording of multiterritory enterprises;
• to provide advices on methods for developing prorating factors;
• to share best practice in survey design.