Section I
Multinational enterprises

Introduction

An important function of national accounts is to measure income (value added) generated by factors of production employed by resident producers in the national economy. Similarly, the purpose of the balance of payments is to record cross-border transactions of residents of the national economy. These tasks are complicated by the growth in importance of MNEs.

There would be fewer problems if MNEs observed national boundaries in keeping their records; if transactions among affiliates under the umbrella of the MNE were recorded at market prices, or a good approximation to them; and if statisticians could consistently record economic rather than legal ownership, including looking through shell companies in which intellectual property or substantial financial assets and liabilities are vested.

These conditions are often not met. MNEs arrange their operations to achieve economic efficiency, for organizational convenience, and to minimize taxes. National boundaries are often not very important for their operational purposes. Thus what they record in national statistical surveys may not be best suited to meeting the purposes of national accounts and balance of payments statistics. Some intra-group transactions may be omitted, while others may be recorded at transfer prices very different from a market equivalent. MNEs commonly transfer patents, software licences, etc. developed in one country to a subsidiary set up in another, without charge or at an artificially low price. The effect is to understate GDP in the country in which the intellectual property was developed, and overstate it in the country in which the subsidiary which receives the fees from users of the intellectual property is established. There are inevitable consequences for derived statistics, such as estimates of labour productivity. (The distortion to GNI, if any, will be much smaller, at least in principle, because the subsidiary will be deemed to distribute retained profits to the parent. In practice, however, statisticians may find it difficult to establish what the profits of the overseas subsidiary are.)

The practice of many MNEs of establishing holding companies in offshore centres may greatly exaggerate the role of these centres in international financial transactions. Thus Luxembourg appears from the data to be a major destination for FDI and a major source of outward direct investment, an impression that arises largely from the presence there of many group holding companies. In 2007 44 per cent of the stock of US outward FDI was recorded as claims on tax havens.

Chapters 2 and 3 explain various statistical issues arising from the operations of MNEs, and initiatives to address at least some of them. Chapter 4 concerns the practice, often associated with MNEs though not confined to them, of setting up offshore entities to handle aspects of their business. All countries will want to capture transactions and positions of MNEs in an appropriate and consistent way across economic and financial accounts. Annex 2.1 to Chapter 2 describes the pioneering efforts of Ireland to do this through a consistency unit in the CSO. The Netherlands has implemented a similar approach (annex 2.2). Finland and Sweden have set up units of the same kind (annex 2.3), and Germany and Italy plan to do so. While it is evident that such units cannot prevent distortions to certain key statistics (the CSO of Ireland for example notes that GDP in Ireland exceeds GNI by some 17 per cent in part because of the sorts of effect mentioned here), they can at least help to quantify it and promote consistency across the accounts.

Consistency, not only across areas of statistics within a country but also across countries, is particularly important for a group of countries whose economic and financial accounts are totalled to give regional aggregates. The main text of Chapter 3 notes two projects in Europe to do this. The FDI network aims to achieve consistent and symmetric recording of FDI (much of which is accounted for by MNEs) across Europe. Eurostat's EuroGroups Register (EGR) will be a business register of major MNE groups in Europe, together with the legal entities (and country of residence) of their constituent parts. To support the EGR project, EU statisticians are devoting much effort to analysing the legal, operational and accounting structure of enterprise groups at national and world level, in order to establish the statistical units within the groups, their links, and the most efficient structures for the collection of statistical data. (The ECB has a similar project covering financial groups.)

Chapter 4 briefly describes SPEs (as Chapter 4 explains, there is at present no single definition) as foreign-owned entities registered in a country, with no or practically no staff or premises in the territory, conducting business mainly with non-residents. Many are financial companies of some kind. Others engage in activities such as merchanting, operational leasing, and holding

intellectual property. They are often set up by MNEs, for a variety of reasons.

In determining the residence of an entity, the 1993 SNA and BPM5 stress physical location and engagement in some productive activity in the territory. Although the Netherlands and Ireland (and a few other countries) have collected data on SPEs for some years, many such entities registered elsewhere must have escaped the statistical net.

The new statistical standards (the 2008 SNA, BPM6, and the proposed ESA 2010) give some attention to SPEs. In particular, they clarify the definition of residence to include entities which, even in the absence of a physical presence in the country, are registered there. They also require SPEs to be allocated to institutional sector and activity categories according to their main activity. The importance of these changes has been heightened by the financial crisis: some SPEs, especially those engaged in financial intermediation or some kind of "captive" financial activity, may have very large balance sheets and financial transactions.

Collecting data from, or relating to, SPEs may be difficult. A consequence of making SPEs resident is that they may dominate some datasets and key individual economic and financial variables in the host economy. Which data will be most affected depends on the activities in which the SPEs engage. At least there are likely to be large effects on gross flows and positions in some or most categories of the balance of payments and international investment position (the distortive effects on FDI statistics noted in Chapter 3 in the context of Luxembourg being an example), feeding through to financial accounts. GDP may be affected, though GNI less so, if at all. To facilitate analysis of domestic economic and financial developments, Chapter 4 recommends two presentations of the relevant data, including and excluding SPEs. Annexes describe experience in the Netherlands, Ireland and Hungary.

Later in this guide, Chapters 5-9 in section II describe in more detail the statistical challenges presented by particular aspects of the activities of MNEs (or activities often associated with MNEs, if not confined to them).