BOPCOM-04/21

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Multiterritory Enterprises

Prepared by the Statistics Department
International Monetary Fund

BALANCE OF PAYMENTS TECHNICAL EXPERT GROUP (BOPTEG)

OUTCOME PAPER (BOPTEG) # 6

JUNE 2004

(1) Topic: **Multiterritory Enterprises**

(2) Issues – see BOPTEG Issues Paper #6A and Background Paper #6

(3) Recommendations:

(i) Multiterritory enterprises are single enterprises that have substantial operations in two or more territories but for which branches are not able to be identified. (Note: International organizations are not treated in the same way.) In the case of multiterritory enterprises, the group agreed with the general principles in *BPM5*, but generalized to all kinds of activities (rather than limited to mobile transport enterprises), and to consider other possible factors for splitting (e.g. some operational factors such as shipping tonnage, rather than just equity shares). The group also concluded that the complexities of practical implementation should be acknowledged in the new manual.

(ii) In the case of joint sovereignty zones, the group agreed that these were a previously omitted case which should be referred to in the new manual. The group considered that guidance and examples should be provided, but the manual should allow flexibility in implementation.

(iii) For both multiterritory zones and joint sovereignty zones, the group agreed that the manual should indicate the need for collaboration between the compilers of the territories concerned. The implications for other economies when compiling partner data should also be noted in the new manual.

(4) Rejected Alternatives:

The group refrained from discussing regional central bank issues, considering them the area of CUTEG.

(5) Questions for the Committee:

(i) Does the Committee agree with the conclusions on multiterritory enterprises? See 3(i) above.

(ii) Does the Committee agree with the conclusions on joint sovereignty zones? See 3(ii) above.

(iii) Does the Committee agree with the proposals for collaboration and dealing with partner reporting issues? See 3(iii) above.

IMF COMMITTEE ON BALANCE OF PAYMENTS STATISTICS

BALANCE OF PAYMENTS TECHNICAL EXPERT GROUP (BOPTEG)

ISSUES PAPER (BOPTEG) # 6A

MULTI-TERRITORY ENTERPRISES

Prepared by International and Financial Accounts Branch
Australian Bureau of Statistics
May 2004

The views expressed in this paper are those of staff within the International and Financial Accounts Branch and do not necessarily reflect those of the Australian Bureau of Statistics.

Balance of Payments Technical Expert Group

Issues Paper (BOPTEG) # 6A

Multi-territory Enterprises
(and joint territories)

Introduction

BPM5 and proposed revisions have raised the issue of multi-territory enterprises. This paper looks at the various cases raised and concludes that there is no need for special treatment for such enterprises as, with a little digging, the structure can be determined and the constituent companies treated in the normal way according to existing standards.

A related but separate issue is that of joint territories. The ABS has had to decide on the statistical treatment of an area over which Australia has joint jurisdiction with neighbouring East Timor. This case and the treatment decided upon are described in order to highlight the need for guidance in the standards and to share the ABS's experience.

Current international standards for the treatment of the issue

Multi-territory enterprises

BPM5 contains an example of an enterprise which consists of a corporation that is registered in two or more countries through special legislation by the participating governments. The Draft Annotated Outline of the new BPM describes a more general case of a multi-territory enterprise as a single enterprise that is run as a seamless entity across several economic territories, so that separate branches cannot be identified.

The issue of assigning residency to a multi-territory enterprise is addressed in BPM5 for an enterprise that operates mobile equipment in several jurisdictions, including ships, aircraft and railways. The manual proposes two ways to treat these enterprises. The first option states that "all of the corporation's transactions may be allocated to the countries of registry in proportion to the amounts of financial capital that the countries have contributed or in proportion to their shares in the equity of the corporation". The second option is to treat the corporation as a resident of the country where its headquarters are located. Corporation premises in other countries would be treated as foreign branches and classified as residents of the countries where they are located. The first method is preferred, however both are claimed to be consistent with the general principals of the BPM5 and the SNA93.

BPM5 contains recommendations on the treatment of regional central banks. In determining the residence of regional central banks, the recommendation is to treat

the national office in each member country as an institutional unit separate from its headquarters. Each national office is therefore to be treated as a resident of the country where it is located, and the financial assets and liabilities of the regional central bank should be allocated in proportion to the claims that such offices have over the bank's collective assets.

Joint territories

SNA/BPM5 provide guidelines for the partition of the globe into economic territories, the identification of institutional units, the determination of the relationship between an economic territory and a unit known as residence and the allocation of units to institutional sectors and industries. Economic territories, with few exceptions, coincide with national territories. However, there are some territories where more than one national government has jurisdiction. The standards do not give any guidance on the treatment of these territories.

Concerns/shortcomings of the current treatment

Multi-territory enterprises

The case of companies which can operate throughout Europe is raised as an example of a multi-territory enterprise whose treatment is problematic under the current standards.

Other examples put forward are those of hydro-electricity schemes on border rivers, and pipelines, bridges and tunnels which cross borders. Because these are located in two or more economic territories, their treatment is considered problematic.

The recommendations on the treatment of regional central banks appear sound and require no alternative.

Joint territories

The standards do not give any guidance on the treatment of these territories.

Possible alternative treatments

In many decades of collecting and compiling BOP and IIP data in a very open economy, with strong links to Asia, the Americas and Europe, a high level of foreign ownership of companies and a high incidence of complex international business arrangements, the ABS has not encountered a multi-territory enterprise that fits the DAO description. While many companies coordinate activities and even more enter into complex arrangements such as dual listings and the issue of stapled securities in order to appear highly integrated, in every case it has been possible to follow the normal SNA/BPM process of identifying institutional units, determining their

residence and allocating them to institutional sectors and industries. The appearance of being multi-territorial has been constructed more as a public relations activity than anything else, and the companies are incorporated in a particular country and have branches and subsidiaries in other countries the same as any other company. Unless it can be established that such enterprises exist and need special treatment, references to multi-territory enterprises need not be included in the standards.

In the case of companies which can operate throughout Europe, on the information available it would appear that it is possible to identify and allocate the units in the normal manner. Should the European Union achieve the level of integration needed for a company to operate seamlessly within its borders, the Union should be considered one economic territory, as are the federations of Switzerland, the United States, Russia and Australia.

In the case of hydro-electricity schemes on border rivers, and pipelines, bridges and tunnels which cross borders, while these are split physically between two or more economic territories, the current standards contain ample guidance for the process of identifying institutional units, determining their residence and allocating them to institutional sectors and industries. It should be noted that residence does not depend on ownership, so ownership criteria should not be used to determine residence.

If problems are encountered in determining the residence of units which have links with more than one economic territory, the nature of the problems needs to be taken into account in reinforcing the guidelines for determining residence as part of the current revision.

The recommendations on the treatment of regional central banks appear sound and require no alternative.

While the current standards can deal with companies with activities in more than one territory, there is a need for alternative views of groups of companies, for instance the view provided by grouping companies in global groups rather than groups restricted to companies in the same economic territory. The development of these alternative views should be pursued through globalisation and related research.

Joint territories

The ABS has had to deal with recording economic activity in a territory which is under the joint jurisdiction of two sovereign states, East Timor and Australia. A description of this treatment is provided here to highlight the considerations needed in dealing with joint territories.

The Timor Sea has been the subject of competing claims between East Timor and Australia concerning the location of the boundary between the two countries. In 2003 East Timor and Australia entered into an arrangement, The Timor Sea Treaty, which provides the basis for the development of the major oil and gas deposits in the Timor Sea in an area called the Joint Petroleum Development Area (JPDA). The JPDA is an area of joint jurisdiction between Australia and East Timor. The Treaty states that exploration and production activity in the JPDA is to be administered by an authority, the Designated Authority, established by the Australian and East Timorese governments. Title to all petroleum produced in the JPDA is to be shared by East Timor and Australia, whereby 90% belongs to East Timor and 10% to Australia. Taxation and royalty flows to each government are determined on the basis of these shares.

The construction of infrastructure for the extraction and processing of petroleum has proceeded in the JPDA. Production began at the beginning of 2004.

To determine the economic territory to which the JPDA belongs, there are two possible interpretations. The first interpretation is to treat the JPDA as being outside the economic territory of any country as no one country has exclusive jurisdiction. If the JPDA is considered in this way, then activity in the area would be assigned to the economic territory to which the unit undertaking the activity has the closest economic links, in this case Australia or East Timor. The alternative interpretation is that the intention of the SNA/BPM requirement to divide the world into economic territories is to prevent duplication of recording of economic activity and this can be achieved by either defining territories which are the exclusive territory of one country or territories which are the territory of more than one country to the exclusion of all other countries. Under this interpretation, given that the JPDA is subject to the jurisdiction of both Australia and East Timor, it can be considered to be the economic territory of both countries. This is the treatment that has been adopted in Australia's economic statistics.

As jurisdiction is shared equally between Australia and East Timor, economic activity in the area should be allocated 50% to Australia and 50% to East Timor. The option of allocating the economic activity by units operating in the JPDA according to the split of the flows such as royalties and tax, namely 90% to East Timor and 10% to Australia, was considered, but it was decided that the jurisdiction is independent of the flow of benefits such as royalties and taxes. Under a previous arrangement with Indonesia, these flows would have been split 50/50. A change in the political situation caused a change in the split from 50/50 to 90/10. Should another activity, such as fishing, occur in the JPDA, the share of flows may be different. However, both countries maintain a claim over 100% of the territory and the Treaty arrangements are pragmatic compromises to allow economic activity to proceed.

The units which will be extracting petroleum in the Bayu Undan Gas Recycle Project

are part of an unincorporated joint venture (UJV) set up to produce in the JPDA. The ABS is of the view that the Bayu Undan unit is made up of quasi-corporations producing petroleum in the JPDA. Because these units are operating in the JPDA, an economic territory equally shared between Australia and East Timor, all economic activity undertaken by these units should be attributed 50% to Australia and 50% to East Timor. In practice, this is achieved by treating all units operating within the area as consisting of two nominal entities - one with residence in the economic territory of East Timor and one with residence in the economic territory of Australia. The allocation of related flows such as rent (royalties) and tax are done in proportions determined by the production sharing contract, that is 90% to East Timor and 10% to Australia.

This treatment is difficult to implement. Petroleum will go directly from the JPDA to its markets in Asia and the Americas. It will not cross a customs frontier, so exports will need to be collected by other means. Equipment and supplies sent from Australia will be recorded by customs as exports, so 50% of these will need to be subtracted for BOP purposes. Activity, such as the provision of services by Australian companies, may or may not be included in statistical reports by Australian companies when they are asked to report their Australian activities. Each statistical collection feeding into the national accounts needs to be scrutinised separately, with the most likely outcomes being that 100% is being reported, in which case 50% needs to be subtracted, or none is being reported (it is not seen as being Australian activity), in which case data need to be obtained elsewhere. There is a need to liaise with the East Timor statistical agency in order to avoid duplication and omissions.

Arriving at this treatment was not easy, and many alternative treatments, taking into account the legal and economic arrangements, were considered. However, after extensive discussion within the ABS and consultation with key users of economic statistics, it was agreed that the treatment described in this paper was the most appropriate.

There is a need for SNA/BPM to provide guidance on the principles to be applied in such cases, with clarification of the nature of economic territory, namely whether it is meant to be the exclusive territory of one country or if it can be the territory of more than one country to the exclusion of all other countries. The ABS believes that the latter interpretation is necessary to cater for situations such as that in the Timor Sea.

Note:

The treaty arrangements between Australia and East Timor referred to in this paper reflect the understanding of the ABS of the Treaty's statistical implications and are presented to place the statistical treatment described in context. Readers requiring authoritative information on the Treaty should seek advice from the Australian Government Attorney-General's Department.

Questions/points for discussion

Do BOPTEG members agree that there is no need to modify the standards to address the issue of multi-territory enterprises?

Are members aware of any joint territories and how they are treated?

Do members agree that guidance should be provided on the treatment of joint territories?

Do members believe that the ABS treatment provides a basis for addressing the issue of joint territories?

Supplementary information

A discussion of residency issues can be found in the paper *Residence*, prepared by the Statistics Department International Monetary Fund, BOPCOM-02/59,http://www.imf.org/external/pubs/ft/bop/2002/02-59.pdf

Feature article - *Statistical Treatment of Economic Activity in the Timor Sea*, from 5206.0 Australian National Accounts: National Income, Expenditure and Product, Sept qtr 2003 http://www.abs.gov.au/Ausstats/abs%40.nsf/90a12181d877a6a6ca2568b5007b861c/d2b3766de85bb120ca256df100006921/$FILE/Treatment%20of%20economic%20activity%20in%20Timor%20Sea_1.pdf