

# DÁIL ÉIREANN

## AN COMHCHOISTE UM AIRGEADAS, CAITEACHAS POIBLÍ AGUS ATHCHÓIRIÚ, AGUS AN TAOISEACH

### JOINT COMMITTEE ON FINANCE, PUBLIC EXPENDITURE AND REFORM, AND TAOISEACH

*Déardaoin, 4 Bealtaine 2017*

*Thursday, 4 May 2017*

The Joint Committee met at 10 a.m.

#### MEMBERS PRESENT:

Deputy Peter Burke	Senator Kieran O'Donnell
Deputy Michael D'Arcy	
Deputy Pearse Doherty	
Deputy Michael McGrath	

SENATOR GERRY HORKAN IN THE CHAIR.

## Scrutiny of EU Legislative Proposals

**Vice Chairman:** The committee is now resumed in public session. This is item 8, session B: scrutiny of EU legislative proposal COM(2017) 114 - Proposal for a Regulation of the European Parliament and of the Council on European business statistics amending Regulation (EC) No. 184/2005 and repealing ten legal acts in the field of business statistics.

I welcome the director general of the Central Statistics Office, Mr. Pádraig Dalton, and Ms Jennifer Banim, assistant director general, and their colleagues to the meeting at very short notice. The committee is aware of the concerns expressed by the witnesses in regard to this proposal. I look forward to hearing the details of these concerns.

I advise witnesses that by virtue of section 17(2)(l) of the Defamation Act 2009, they are protected by absolute privilege in respect of their evidence to this committee. However, if they are directed by the committee to cease giving evidence relating to a particular matter and they continue to do so, they are entitled thereafter only to a qualified privilege in respect of their evidence. They are directed that only evidence connected with the subject matter of the proceedings is to be given and they are asked to respect the parliamentary practice to the effect that, where possible, they should not criticise nor make charges against any person, persons or entity by name or in such a way as to make him, her or it identifiable.

Members are reminded of the longstanding parliamentary practice to the effect that they should not comment on, criticise or make charges against a person outside the Houses or an official either by name or in such a way as to make him, her or it identifiable.

I invite Mr. Dalton to make his opening remarks.

**Mr. Pádraig Dalton:** I thank the Chairperson and the committee for inviting the Central Statistics Office here today. I am accompanied by my colleagues, Ms Jennifer Banim, Mr. Joe Treacy, Ms Orla McCarthy and Ms Tara Davis.

The draft Regulation on European business statistics, amending Regulation No. 184/2005 and repealing ten legal acts in the field of business statistics is part of the Renewable Energy Feed In Tariff, REFIT, programme. It is the European Commission's regulatory fitness and performance programme for making EU law simpler and reducing unnecessary regulatory costs. Business statistics has been identified as a priority area under the REFIT programme.

The draft regulation is known by the acronym FRIBS which stands for framework regulation integrating business statistics. The draft regulation envisages the integration of statistical requirements and legal acts for business statistics by streamlining and simplifying them, leading to an intended reduction of the reporting burden on businesses. The current system for producing European business statistics is fragmented into separate domain specific regulations, which leads to inconsistencies in the data collected and inefficiencies in their production. FRIBS will provide a common legal framework for the production and compilation of business statistics for the European Statistical System.

The CSO can support the broader aims of the proposal, particularly relating to the rationalisation of the relevant legislation and the focus on burden reduction for respondents. However, the CSO is extremely concerned about an aspect of the regulation that makes a provision for the mandatory exchange of confidential identifiable enterprise level data between national statistics authorities. In the context of trade data compilers, that can include national central banks and national customs offices in the EU while usage is optional. The inclusion of an “optional usage” clause is a pragmatic decision that reflects the reality that the asymmetries in trade data are significant. In other words, exports captured by country A to country B do not match import data of country B from country A. It is anticipated, for at least the medium term, that the collection of both export and import data will be required to ensure quality hence the optional usage clause. This provision would involve the CSO in having to share sensitive, commercial information such as exports of a particular multinational with a statistical authority of another EU member state. The essence and ultimate goal of this aspect of the proposal is that trade data compilers would eventually only collect data on the export side and that the amalgamation of the exports from the other 27 member states would provide the import data for any given country. In this environment compilers of trade data would be dependent on 27 other statistical organisations spread across the EU. The rationale being put forward for this initiative revolves around burden reduction and quality improvement, especially in a globalisation context. The CSO does not believe that the proposal will address either of these objectives in a meaningful way.

On the burden side, the provisions set out that while the exchange of identifiable enterprise level data on exports is mandatory the usage, by individual member states, is voluntary. It is widely accepted that in the medium term most member states will continue to collect both export and import data. The overall burden on exporters will be increased in the medium-term under this proposal, as the VAT number of the counterpart to the transaction, that is the VAT number of the importer in the trading country, will need to be supplied by the exporter to allow for meaningful use of the exchanged data. The burden issue, therefore, can and will only be addressed if member states stop collecting the import data.

Aside from the burden issues outlined, the mandatory exchange of identifiable and confidential micro data could seriously impede the CSO’s ability to collect important commercially sensitive data from the large multinationals that are so critical to compiling Ireland’s economic statistics, including the national accounts. The guarantee of confidentiality that the CSO provides to respondents is critical to building trust and ensures that enterprises feel secure in providing accurate information on a timely basis. The CSO’s view is that this regulation poses a serious risk to the relationship with respondents and may compromise the CSO’s ability to compile accurate business and economic statistics. In the CSO’s engagement with stakeholders, IBEC and a number of Irish-based multinationals have expressed concerns about the proposals.

In addition, the CSO has concerns about quality. One of the arguments put forward by the

Commission relates to the need to share data to get a better insight on globalisation. In Ireland, to take account of our highly globalised economy, the CSO co-ordinates the collection of all enterprise-based statistics. For example, structural business statistics, short-term statistical returns, trade data, balance of payments data and corporation tax data. All of this work is done through one unit called the large cases unit to ensure consistency at enterprise or company level across the various statistical domains. This approach of having a dedicated large cases unit is the exception across Europe rather than the norm. In the absence of such a co-ordinated approach, and timely access to all of the relevant data sources, including on exported and imported goods, it would be difficult to compile data that is nationally consistent across these domains. It is the CSO's view that in the absence of a co-ordinated approach the quality of the data being shared across member states could be of limited use.

**Vice Chairman:** I thank Mr. Dalton for his presentation.

**Deputy Pearse Doherty:** Cuirim fáilte roimh Mr. Dalton and I thank him for his presentation.

I shall start by referring to the concern raised by IBEC and a number of multinationals. Am I correct that the regulation just deals with the larger companies or multinationals? I have read some of the minutes on CSO meetings and know a concern was expressed about the definition of an enterprise. It was commented at the meeting that the regulation would not affect the majority of businesses in Ireland and would just affect larger multinationals. Is that why IBEC and a number of multinationals are concerned? Does the regulation affect every business in the State?

**Mr. Pádraig Dalton:** First, there is a threshold for reporting on INTRASTAT. The threshold is set at a level where we still must collect export data from almost 200 enterprises and import data from a similar number. That provision goes way beyond the multinational enterprises. One can see from the concentration in yesterday's statistics on foreign direct investment that large multinationals mean about 20 enterprises. The regulation will hit large multinationals but it will also have an impact on SMEs. The regulation goes ways beyond the multinational perspective.

**Deputy Pearse Doherty:** Yes. The regulation is still limited to the larger companies. I mean 2,000 companies out of a large pool of companies. The regulation affects the higher level but it does not just affect multinationals.

**Mr. Pádraig Dalton:** No, exactly. In total, we have little over 14,000 exporters in the country and about 2,000 of them fall below the threshold. The total value of exports is of the order of €60 billion and the excluded enterprises only account for about €1.2 billion. Again, it is the structure of the Irish economy and the concentration and importance of a relatively small number of large enterprises.

**Deputy Pearse Doherty:** Yes, I appreciate that aspect. When the CSO conducts its surveys and gathers data are all of the companies legally obliged to provide the requested information?

**Mr. Pádraig Dalton:** Yes. The Revenue Commissioners collect the data in Ireland and that is the case in the vast number of member states. We take the data from the Revenue Commissioners and process, analyse and publish it but that is not the case in every other country. In a number of countries the entire process is managed by their revenue or customs organisation but it differs in other countries. In Belgium, for example, its national central bank collects the data. The Revenue Commissions collect the data using the INTRASTAT survey and then we take the data from them in order to conduct the relevant processing and analysing. Companies are legally required to provide the data.

**Deputy Pearse Doherty:** Mr. Dalton has said the regulation “could seriously impede the CSO’s ability to collect important commercially sensitive data from the large multinationals that are so critical to compiling Ireland’s economic statistics.” Why? Can a legal obligation not be placed on the companies?

**Mr. Pádraig Dalton:** Yes. The legal obligation always exists. Unfortunately, sometimes we must take companies to court to make them comply with the CSO’s data requirements. We had a case recently in which we spent eight years in the courts with a company, during which period we did not get any data from it. Imagine if that had been one of the larger players in the Irish economy. We would not be in a position to compile accurate or robust national accounts data or business statistics data if any one of those larger multinationals decided not to engage with us. It goes beyond the multinational companies as well. Businesses in Ireland and Irish people, even the small and medium sized enterprises would, in our view, be concerned at the possibility that their data would be shared with 27 other statistical authorities across the EU, not all of which are national statistical institutes. Our big concern is that there would be any reduction in compliance with our business statistical surveys, which feed in directly to the compilation of the national accounts, and in some cases the balance of payments as well.

**Deputy Pearse Doherty:** I can understand where businesses are coming from. Can Mr. Dalton explain to the committee why businesses would have concerns, given that all of the other collection agencies, whatever form they take, will be bound by the same legal confidentiality that currently applies to the CSO?

**Mr. Pádraig Dalton:** Under this legislation, when the data is collected it can only be used for statistical purposes. The problem for us is more a concern at the reaction of the large multinationals. We have a long history of engaging directly with the compilers. We have a large cases unit which engages with these compilers on a one-to-one basis. We know how they work and how careful they are with their data. I think it is fair to say that on occasion they are reluctant even to give the data to the CSO.

**Vice Chairman:** I do not mean to cut across but Mr. Dalton mentioned Revenue earlier. Do the companies give the data to Revenue or directly to the CSO? Is the large cases unit situated within Revenue or within the CSO?

**Mr. Pádraig Dalton:** For the trade issue, they give the data to Revenue. If there is any sense of unease from the business community about the data it is providing to the CSO and if we do not get that data, it makes it almost impossible for us to compile robust national accounts and balance of payments data. Our big concern is that the regulatory cover will not provide us with the necessary assurances for the businesses.

We have a history and we know that despite the fact that we have statistical law in place, some of these businesses do not comply. It is not the same as compliance with a tax requirement. People view tax legislation very differently from statistical legislation. While they provide the data to Revenue for tax, the concern for us is that in respect of the structural business statistical surveys and the short-term statistical surveys, both of which are key components of the national accounts, we could see a reduction in the response rates from the business community.

**Deputy Pearse Doherty:** Is it not mandatory to provide that?

**Mr. Pádraig Dalton:** It still is mandatory but despite that, we have companies that do not provide it to us.

**Vice Chairman:** What are the penalties?

**Mr. Pádraig Dalton:** I worked in structural business statistics 20 years ago when I first joined the CSO. I had a company that offered to pay the fines for five years if I promised to leave them alone.

**Vice Chairman:** They are not very significant punishments.

**Mr. Pádraig Dalton:** Not relative to the size of some of these companies, absolutely not. Our own experience is that it took us eight years in one case to reach a conclusion and in that period we got no data. We were lucky it was not one of the big players. Had it been, I am quite sure I would have been in front of another Oireachtas committee being asked why the CSO's data on gross domestic product, GDP, gross national product, GNP and the new gross national income\*, GNI\* were not fully capturing activity within the economy as a whole. That is the big concern.

**Deputy Pearse Doherty:** Let us park the issue that some multinationals and other enterprises might not readily give the information to the CSO despite having a legal requirement to do so. Let us imagine that they were providing it to us. Does this improve the situation or not in the medium term? Mr. Dalton has said that in the short term, the CSO will continue to gather export and import data. Six or seven years down the road, if enterprises go along with it, will this be a better system?

**Mr. Pádraig Dalton:** One of the key issues here is what they call the asymmetries. For example, Ireland's exports to Germany should match Germany's imports from Ireland. When we do the asymmetries between imports and exports, there is a discrepancy of €3 trillion at EU level. There is a whole range of reasons for that. All member states are planning to continue to collect import and export data until such a point as they are satisfied that the asymmetries issue has been addressed. It is a huge issue. Germany's exports to Ireland are relatively small as a proportion of its overall total exports. For that reason, the Germans do not sample to the scale that we would need to get the relative accuracy of the import data that we would require or the export data we have for Germany. The big countries will be forced to over-sample to try to ensure the quality not of their statistics but of the statistics for smaller member States such as Ireland, Malta and so on. That is not specifically addressed in the legislation. It is questionable whether the quality issue will be addressed.

The quality issue they are talking about really involves trying to get a better handle on globalisation. Ireland is in a very lucky situation in that the national statistical institute, the CSO, compiles the balance of payments, trade statistics, structural business statistics and the short-term statistics, and we have a legal right of access to the administrative data. That means that in our large cases unit, we can compare the data from those multiple sources at unit record level. Where there is an error or where we see an inconsistency in the reporting, we go back to the company and flag the issue and ask them to explain it to us. That is how we assure the quality of our data.

The vast majority of national statistical institutes do not compile the balance of payment statistics. In most countries it is the national central bank that does so. Only in the last two years has the legislation been passed at European level allowing some national statistics institutes access to administrative data. In practice, it is not happening in some of those countries. The trade data is not always compiled by the national statistical institute. Our experience says that if we do not

have access to those five data sources or a large cases unit addressing potential inconsistencies in the data, we cannot be sure of having nationally consistent data and a full picture.

Now we are in a situation in which our import data would be based on data from 27 other member states, yet we know that some of those countries do not have access to all of those relevant data sources. We cannot be sure of the quality of data from different countries and they cannot be sure about us. They are all very professional organisations, there is absolutely no question about that. The problem for a lot of them is access to the data. They do not have access to the same level of data that we have in trying to build a coherent picture. If we want to address globalisation, which is one of the stated objectives of this commission, we need access to all of that data at micro level, not at aggregate level. We need to be able to see the picture at individual company level.

**Deputy Pearse Doherty:** I presume other countries are looking at us and saying this is a bit rich coming from the Irish, in terms of our GDP revisions and all the rest. I understand that the data says what it says. The problem is how far we were able to rely on those type of indicators and benchmarks in the past. I presume the calculations are correct. Eurostat has looked at all of this and given the CSO a clean bill of health in terms of those revisions.

I take on board what Mr. Dalton is saying about having the micro data and a bird's eye view of all the data that is out there.

I want to go back to the principle. I am not suggesting that I support it, but I want to get the Central Statistics Office view. Mr. Dalton opened his contribution by referring to supporting the broader aims. Does Mr. Dalton believe that the information collected should be shared across the European Union, although perhaps not in the exact way the proposal has suggested? Does Mr. Dalton believe that some version of that is what is needed? Does Mr. Dalton believe that the position here should remain constant?

**Mr. Pádraig Dalton:** Rather than countries looking at Ireland and saying it is a little rich, the opposite is being said. We have received a number of study visits. The statistical office of Luxembourg is visiting Ireland today. The representatives are arriving this afternoon to look at our approach to the compilation of national accounts and the balance of payments. The Dutch have been over. Representatives from the UK are coming later this year. Representatives from the statistics office of Luxembourg will be here today. What is actually happening is the opposite of what Deputy Doherty has suggested. Rather, they are looking at us and asking whether the large cases unit structure is the way they need to go to gain access to all the data sources. In fact, the opposite is happening.

There was a question about getting back to the principle of it. We could sit back and say that in theory we can see the value in some of it. However, I cannot separate it from the practice. Perhaps if this proposal was coming in five or ten years time, when we had time to focus on ensuring that every compiler of official statistics has access to all the data sources necessary as well as an ability to influence the quality of all the various data sources, then our perspective would be a little different. We need to ensure that there is confidence as well. The big thing here is confidence as well as trust in the national statistical institute. Generally speaking, the vast majority of compilers and respondents in Ireland comply because we have a record of maintaining the confidentiality of the data provided, although a small number of companies do not comply. We have a strong record to stand on in that regard.

That is really important. Our concern is that anything that might dilute their trust in us creates a risk for the national statistical system. In theory, at a European level I can see some value in it. However, at a national level other issues arise. Let us consider it from an Irish perspective. Approximately 90% of the ultimate ownership of foreign direct investment is in the USA.

Therefore, for us to get data from the member states will not help. It does not address the global nature of FDI. That is the thing about globalisation. Globalisation cannot be addressed purely at a European level. It needs to be addressed at a global level if we really want to get to the bottom of the issue.

**Deputy Pearse Doherty:** I thank Mr. Dalton. He has made a strong and convincing case in respect of the impact this would have in terms of our national accounts.

We have many challenges in interpreting the data as policy-makers, especially in trying to figure out some of the anomalies we have seen from different data. Can Mr. Dalton comment on the reduction that we are seeing in the unemployment rate, which has been consistently dropping in recent months? If it is across the board, that is fine. However, what we are seeing is a reduction in income tax against what is profiled. It seems to be an anomaly. Since unemployment is falling at the current rate, we should be seeing an increase in income tax, or at least for that increase to be on profile. However, what we are seeing is a significant drop in the first quarter and in the results from last month. Is there something that we are not seeing? How can both of these things be happening at the same time?

**Mr. Pádraig Dalton:** We have to look at how employment, in particular, is measured. If a person is in work for one hour in the reference week, that person is termed as being in employment. This applies officially not only in Ireland but everywhere according to International Labour Office standards. Therefore, one of the things that we always have to examine is the quality of the employment. We need to look at the breakdown between full-time work, part-time work, hours worked, the sectors where growth in employment is occurring, whether the jobs are high-value jobs or lower-income jobs. Another consideration is the tax-take associated with those types of jobs. I do not have those figures before me now. Anyway, when we are considering tax and employment data it is not a simple one-to-one correlation. We can go back to our colleagues on the labour market side and ask for some insight into that question.

I would always be careful. We always say that in the case of short-term series we have to be careful about interpreting one instance. We always like to examine a series over a given period. We would prefer to examine a 12-month period to see the correlation. Generally speaking, the correlation is rather strong between the two over the longer term. It can break down on an individual quarterly basis sometimes. However, generally, over the long term we will see a consistency in the movement between the two.

**Deputy Pearse Doherty:** Sometimes as policy makers we do not have the luxury of waiting for 12 months. I agree 100%. For example, corporation tax is so lumpy that we cannot really comment on it for the first quarter or second quarter. Anyway, income tax should be more stable and predictable. The assumptions used to profile income tax should not be so far off in terms of the type of employment and so on. Therefore, when we see a four-month trend, it begins to become concerning. At least it should be in the sense that we should sit up and take notice and try to figure out what is going on behind the scenes.

**Mr. Pádraig Dalton:** We will certainly go back and look at it. Committee members can see from the series on employment and unemployment that there is a clear trend. It has been evident not only for four months but for close to three years. We have seen the gradual decline in the quarterly national household survey and in the monthly unemployment figures as well. Anyway, I take Deputy Doherty's point about the tax figures. Obviously, everyone is looking at those published yesterday. We will look at that and see whether there is anything we can do to explain this mismatch.

**Deputy Pearse Doherty:** If the CSO has any comment that it can send to the committee, it would be valuable for us in terms of our scrutiny.



**Senator Kieran O'Donnell:** I will not delay Mr. Dalton. I have two quick points. What does the CSO want? What is it looking for today? Is the CSO looking for changes? Let us get to the heart of the matter: the draft regulation. What does the CSO want? Does the CSO not want it to apply to Ireland? Does the CSO want a change in the regulation?

**Mr. Pádraig Dalton:** We have been debating this at a European level within the statistical domain for a period bordering on four years. We have had a consistent perspective on this legislation. We do not agree with the mandatory exchange of confidential data. It goes against everything that official statisticians have worked for over many years. There are three key pillars for any official statistical system: political and professional independence, objectivity in analysis and a guarantee of confidentiality. We have put it to the Commission clearly that we do not agree with the mandatory exchange. We believe the exchange should be made optional.

**Senator Kieran O'Donnell:** This would have been in the run-up to the drafting of the regulations. Is that correct?

**Mr. Pádraig Dalton:** Absolutely, this only went through comitology committee - the European Statistical System Committee that I sit on - last November. However, because it is a regulation of the Council and of the EU Parliament, we were only asked for our opinion. We expressed an opinion last month.

**Senator Kieran O'Donnell:** Was that on the basis of a draft regulation?

**Mr. Pádraig Dalton:** Absolutely, it was on the basis of the draft. That draft is now progressing to the Council working party.

**Senator Kieran O'Donnell:** Prior to that the CSO would have had an input and an overall view. Is that the case? This was being discussed prior to the drafting of the regulation.

**Mr. Pádraig Dalton:** Absolutely, it has been in draft form for four years. We have been quite consistent over that period. We are not alone. Other member states have expressed concerns, but not enough at this stage. It will be very interesting-----

**Senator Kieran O'Donnell:** Which countries are driving this?

**Mr. Pádraig Dalton:** Certainly, the Commission is driving it. Many countries are in favour of the approach, including Finland. France is positive. Poland is positive. Other countries are more reticent, including Ireland. The UK, Sweden and Hungary were reticent too.

**Senator Kieran O'Donnell:** What about Spain?

**Mr. Pádraig Dalton:** Spain has not been as vocal as some of the others, including the UK, Sweden, Ireland and Hungary.

**Senator Kieran O'Donnell:** What about Germany?

**Mr. Pádraig Dalton:** Again, it is difficult to get Germany to be explicit about its position. Germany was sitting on the fence somewhat. The Dutch and the Danes say they support it with qualification. Their position is that if there is an increase in burden, then they will not support it.

**Senator Kieran O'Donnell:** Mr. Dalton has probably studied this in depth. What about the implementation of this regulation in Ireland? Is the Government legally required to implement the regulation? Does it have discretion not to implement it?

**Mr. Pádraig Dalton:** Absolutely, if this regulation goes through the EU Parliament and the Council and it is agreed, then it is a done deal and everyone has to comply with it.

**Senator Kieran O'Donnell:** Let us look at it in a purely logical sense. Where stands this regulation? We can talk about it and have a very interesting discussion, but let us get down to brass tacks. It is a bit like Brexit, we might not like to see it happening but it is going to happen. In Mr. Dalton's considered opinion is this regulation going to come into being?

**Mr. Pádraig Dalton:** I am not 100% sure. If I had to go one way or the other all the current signals would suggest that this regulation will pass. One never knows, however, what is going to happen when it goes into the Council and Parliament process. First it will go to the Council working group for statistics. It will have to agree a position, which is always a negotiated position so it will change from this. It will then go to the committee of permanent representatives to the EU, COREPER, and once they give the Presidency the mandate for negotiation it will go to a trilogue. I do not know what will happen once we go to COREPER and to the Parliament. A question that could be asked is why one would take a big risk on mandatory exchange of confidential microdata for optional usage.

**Senator Kieran O'Donnell:** How long will this process take from now?

**Mr. Pádraig Dalton:** There was a piece of legislation that took up to four years. It can take some years to get through the co-legislative process.

**Senator Kieran O'Donnell:** Has the Central Statistics Office had interaction with Ireland's MEPs in this respect?

**Mr. Pádraig Dalton:** We have already engaged with the permanent representative in Brussels and we have briefed them on our position. Our position is well understood at the appropriate levels in Brussels.

**Senator Kieran O'Donnell:** Am I correct to presume that this information is for use by EUROSTAT?

**Mr. Pádraig Dalton:** No. EUROSTAT is only a compiler of EU statistics. The information is for the users of trade data, for legislators, for researchers, for academia and for businesses.

**Senator Kieran O'Donnell:** Is it possible to provide the substance of this data without breaching confidentiality for the companies from whom the CSO receives information? Is it possible to find a mechanism where the CSO can give the EU what it requires but retain the confidentiality for the individual companies?

**Mr. Pádraig Dalton:** In legislation the confidentiality is guaranteed, even in this EU legislation. The data can only be used for statistical purposes and the data cannot be put into the public domain by any one of the other 27 member states that would lead to the identification of an individual company. That is written in the legislation but the risks can grow. For example, the

CSO is currently the compiler of the export and import data. The CSO is in control of that data. It is easy for respondents to look at one organisation and say “We have seen the CSO in operation for many years, it has a strong track record on data confidentiality and we know as an organisation it will protect our data”. The problem for us is that people will be getting the same guarantees from EUROSTAT and the other 27 member states but they do not have any relationship with those other 27 member states. The big concern is perception and whether companies perceive that there is any greater risk of a breach of confidentiality of their data.

**Senator Kieran O’Donnell:** For how many years would the CSO have been in receipt of this information in respect of the compilation of its own data?

**Mr. Pádraig Dalton:** It goes back to the foundation of the CSO in 1949 and before that.

**Senator Kieran O’Donnell:** There is a credibility built up between the CSO and individual companies in Ireland. The level of detail required by the EU cannot be provided unless the CSO gives a level of micro detail. Mr. Dalton makes the argument very coherently. It is a long road but the CSO is obviously briefing all the relevant parties. I will take it back to our own party also.

I have two questions on the CSO statistics, and especially the analysis on employment and unemployment. When Ireland had a hiatus in GDP growth what was the eventual detailed, valid and logical explanation? Was it the patent cliff? Is that the logical explanation?

My second question concerns the CSO’s analysis of the employment and unemployment figures where a person who works one hour per week is considered to be employed. Does the CSO do any sub-data to provide details on categories of the hours that are worked and does the CSO make distinctions around part-time and short-term working and so on? It may not be visible but it may be in some sub-report of the CSO. I contact the CSO office in Cork quite a lot and the staff are excellent.

**Mr. Pádraig Dalton:** I will take the Senator’s second question first because it is the easy one. The answer is that, yes, we have breakdowns of all the employment data. We break it down by sector and people working, by occupation and by full-time and part-time.

**Senator Kieran O’Donnell:** What does the CSO define as full-time and part-time?

**Mr. Pádraig Dalton:** Full-time and part-time is based on the number of hours worked. We collect information on hours worked from the respondents also. There are two measures for employment provided in the quarterly national household survey. One is the international measurement by the International Labour Organization, the ILO basis, which is the one hour per week. Every country measures it in that way. We also compile statistics on the principal economic status where we simply ask the person if they are in employment. They are given five categories and it is self-perception rather than the ILO.

**Senator Kieran O’Donnell:** Does the CSO break down the numbers of people who are on contract and in full-time employment?

**Mr. Pádraig Dalton:** Yes we would have that level of information.

**Senator Kieran O’Donnell:** Some people would be employed on a contract for 11 months and others are in longer-term employment. Does the CSO have that level of breakdown?

**Mr. Pádraig Dalton:** We do. We publish all that information Senator.

**Senator Kieran O’Donnell:** Does the CSO go in to the last year’s statistics and see a comparison in the change between part-time and full-time?

**Mr. Pádraig Dalton:** That is published every quarter and it is on our website. I will now turn to the first question.

**Senator Kieran O'Donnell:** The harder question.

**Mr. Pádraig Dalton:** It is not a hard question at all. It all comes down to the intellectual property products. That is where it came from. We appeared in front of this committee last November and we spent two hours talking about it. It comes down to the trend that has existed in Ireland going back to 2011 when we started to see its emergence; the relocation of intellectual property products or intangible assets in to Ireland. The treatment of those assets is very clear in the system of national accounts and in the European system of accounts, the ESA 2010, which are the regulations governing the compilation of national accounts. That is the explanation for that.

**Senator Kieran O'Donnell:** If one transfers intellectual properties to Ireland is there a value put on that?

**Mr. Pádraig Dalton:** I will let my colleague Ms Jennifer Banim answer that.

**Ms Jennifer Banim:** As Mr. Dalton has outlined, we are seeing a trend of co-location of intellectual property products held by multinational entities with a significant manufacturing, production or service operation, many of which are located in Europe or in Ireland. They are moving, relocating or transacting. They can do it in a variety of ways; they can move a whole company here that is dominated by intellectual property products, or they can have the Irish entity purchase or import intellectual property products. The Senator is right about the value of it and there is a science around it. There are accountancy standards around how companies value these products. The relocation or transfer of the actual purchase is neutral on GDP. The 26% level shift that we saw in 2015 referred to the relocation of whole balance sheets for a number of entities that had a large amount of intellectual property products associated with them. Contract manufacturing type activity was also associated with it. These were entities that had production outside of Ireland, a net value was added from that production and all of the value added production was attributable to Ireland under the standards. This is what drove the 26% shift.

**Senator Kieran O'Donnell:** Was that a once off?

**Ms Jennifer Banim:** The relocation of intellectual property is ongoing and we see a number of these.

**Senator Kieran O'Donnell:** How is that neutral?

**Ms Jennifer Banim:** It is neutral because one shows it as a move into the State of the intellectual property. This becomes added to the capital stock of the country. This is offset by showing it as an import. It is offset in the accounts when it is a transaction. When it is a relocation it is net neutral on GNP.

**Senator Kieran O'Donnell:** In essence that large spike was contract manufacturing.

**Ms Jennifer Banim:** It was driven by contract manufacturing, which has been prevalent in the Irish economy in both directions for many decades.

**Senator Kieran O'Donnell:** There was a change. Prior to that date contract manufacturing was not included in the national accounts.

**Ms Jennifer Banim:** It has always been included. It is just the scale of the contract manufacturing that came with these relocations that drove that big shift.

**Senator Kieran O'Donnell:** Does that continue to be the case?

**Ms Jennifer Banim:** We are at a new level. We have had eight or nine quarters at the new level of activity that is attributable to Ireland.

**Senator Kieran O'Donnell:** Is that all from the multinational sector?

**Ms Jennifer Banim:** The interesting thing about contract manufacturing is that it can happen in both ways. We can provide contract-manufacturing services or we can be outsourcing and buying them, if I can put it that way, from Ireland. It goes across the multinationals, but applies to SMEs also.

**Senator Kieran O'Donnell:** How much of the GDP growth we are seeing at the moment is attributable to contract manufacturing?

**Ms Jennifer Banim:** It is difficult to break it out exactly. I might----

**Senator Kieran O'Donnell:** The point I am trying to make is about the correlation. When we see GDP growth, we assume there is a direct correlation to growth in employment, wages and income tax. Contract manufacturing takes place outside Ireland. Is it logical for it to be included in our GDP?

**Ms Jennifer Banim:** That is a very good question. It comes back to the principle of what is located here, what is the centre of economic interest and what economic ownership means. That debate took place and was-----

**Senator Kieran O'Donnell:** With contract manufacturing, the likelihood is that the taxes on those earnings are being assessed in the country where the manufacturing process is taking place. Does the CSO look at it in any way that those contract-manufacturing sales or profits have to be assessed for taxes in Ireland?

**Ms Jennifer Banim:** We would not look at it in that way. We would purely go by the criteria for what we record in the statistics. For statistical purposes the criteria stipulate that on this economic basis if a company is contracting work abroad and selling it on or exporting it on there, that is a profit or a value-add that is attributable to the Irish entity for statistical purposes. We do not stray into that taxation question.

**Senator Kieran O'Donnell:** What percentage of GDP is attributable to contract manufacturing?

**Ms Jennifer Banim:** I do not have it exactly. However, this might help somewhat. In 2015 we had that 26% jump in GDP. The national accounts framework has another indicator, net domestic product, which strips out many of these globalisation events. I could not give it to the Senator separately, but in 2015 that grew by about 6%, which is more in line with the growth in the underlying economy or the real domestic economy. That gives a sense of the scale-----

**Senator Kieran O'Donnell:** Does the CSO isolate contract manufacturing in its reports?

**Ms Jennifer Banim:** We are working on it. It was one of the recommendations of the expert group. Our typical net exports of goods and services would be €35 billion in a year. In 2015 it rose to €70 billion. That gives an idea of the scale of that contract-manufacturing event.

**Senator Kieran O'Donnell:** By how much did it rise?

**Ms Jennifer Banim:** Net exports went from approximately €35 billion to €70 billion.

**Senator Kieran O'Donnell:** In one year.

**Ms Jennifer Banim:** Net exports on imports of goods and services in the national accounts went from €35 billion in 2014.

**Senator Kieran O'Donnell:** They doubled between 2014 and 2015.

**Ms Jennifer Banim:** It gives an idea of the scale of contract manufacturing.

**Vice Chairman:** I do not believe I have ever heard representatives of the CSO say they are extremely concerned - a very strong term - about the mandatory exchange of confidential identifiable enterprise-level data. The committee will need to meet in private session to discuss our approach to that. Other than the burden being released from the MNCs, from the Commission's perspective what is the great advantage of this proposal? The CSO has indicated that in the medium term the burden will actually increase rather than decrease for the relevant exporters - the 2,000 out of 14,000 that make the vast bulk of the exports. Why is it pushing this so hard?

**Mr. Pádraig Dalton:** In addition to the burden, the Commission feels it will improve quality and help to get a better insight into globalisation.

**Vice Chairman:** Does the CSO believe it will do the opposite?

**Mr. Pádraig Dalton:** We have concerns.

**Vice Chairman:** The CSO will lose its own information that it believes to be accurate - I do not doubt it.

**Mr. Pádraig Dalton:** The point is that it is a bigger risk for Ireland than for other member states because of the structure of our economy. Many of the other member states, particularly the larger ones are not as dependent on a small number of enterprises as we are. If a large enterprise does not respond in Germany, it will not have a huge impact on that country's GDP or GNP. We are in a unique position.

**Vice Chairman:** We have statistics such as ten multinationals contributing half the corporation tax.

**Mr. Pádraig Dalton:** From a statistical perspective rather than a corporation tax perspective, the CSO will struggle to-----

**Vice Chairman:** Individual companies-----

**Mr. Pádraig Dalton:** If individual companies do not comply with our regulatory requirements we will really struggle to compile robust and accurate economic statistics for the State.

**Vice Chairman:** Is it suggested that we should have stronger penalties? Mr. Dalton has said that people are quite happy to pay the fines and not give the CSO the information. Should we have a different regime that incentivises them to comply?

**Mr. Pádraig Dalton:** We do not have a problem with the multinational companies now. They are actually very good. That is because we have a very good relationship with them. That is based on the current environment in which we operate. I do not believe penalties provide the answer. The information we get from these companies is highly sensitive at an individual level. I do not believe any level of penalty we might consider here would mitigate their concerns or potential concerns.

It is not definite, indeed it is highly unlikely, that there would be a breach of confidentiality. However, we are responsible for compiling robust economic statistics on behalf of the Government and the people. If we see a major risk to our ability to do that, it is our responsibility to highlight that risk. That risk is much higher for Ireland than for any other EU member state because of the concentration of a very small number of multinationals and the impact on our economic and business statistics.

**Vice Chairman:** Does the requirement to share it at an individual company level come from the VAT number issue in terms of exports versus imports?

**Mr. Pádraig Dalton:** It is because they want to identify where in Europe the value-add in global value chain is. At the moment the total value is given in the final destination. However, as members will have seen previously from these global value chains, the production of products is not a straightforward process. It does not just happen in a factory in Ireland or a factory in Germany. It involves multiple components some manufactured outside Europe with value added at different parts of the production cycle. EUROSTAT and the Commission want to get a better handle on globalisation and then beyond that a better handle on global value chains. From their perspective this may only be the start of a bigger issue.

**Vice Chairman:** I thank the witnesses for attending at such short notice. We will suspend the meeting to allow the witnesses to leave. We then need to make a decision on the decision, which should not take too long.

*Sitting suspended at 12.48 p.m. and resumed in private session at 12.49 p.m.*

The joint committee adjourned at 12.58 p.m. until 4 p.m. on Tuesday, 16 May 2017