



EUROPEAN COMMISSION



EUROSTAT

Directorate C: National and European Accounts

Luxembourg, 06 JUN 2007
ESTAT/C-3/LN/LA/AK/vb D(2007) 30164

Mr Bill Keating
Director - Macro-economic statistics
Central Statistics Office
Ardee Road, Rathmines
IRL - Dublin 6

Subject: Classification of Irish Rail – examination of your clarifications sent on 15 March 2007 and conclusions

Dear Mr Keating,

Thank you for your letter dated 15 March 2007, including comments and answers to our additional questions asked in a letter dated 1 March 2007. We would like to come back to you on the issue of the classification of the Irish Rail.

The accounting issue for which a clarification is requested

In the Irish National Accounts, the state owned road and rail transport company (Coras Iompair Eireann, CIE) and its three transport operating subsidiary companies (Irish Rail, Dublin Bus and Bus Eireann) are classified outside general government. All three subsidiaries make operating losses.

In recent years, Irish Rail has become a borderline classification case. Sales revenues have declined relative to its operating expenses and now represent approximately 50% of costs. During the EDP dialogue visit in July 2006, the issue was raised again and Eurostat requested more information. Upon the receipt of the new information, Eurostat analysed again the issue. There were two main issues to be analysed:

1. Can a non-market subsidiary of a market holding company be recognized and reclassified in general government?
2. If yes, is it necessary to reclassify the Irish Rail into the general government sector?

Methodological analysis by Eurostat

Concerning the first issue, in our letter dated 1 March 2007 we expressed the view that a non-market subsidiary of a market holding company should be reclassified in general government. You disagree with us on this issue in your letter dated 15 March 2007, stating that "...one cannot have a company classified in the General Government sector, if it is 100% owned by a holding corporation classified outside of Government.."

The topic of holding corporations, including the topic of the classification of non-market subsidiaries of market holding companies, will be the subject of a methodological paper and will be discussed during the Financial Accounts Working Party in June 2006. This paper is now available for the Member States.

As regards the second issue, namely the classification of the Irish Rail, we would like to thank you for the clarifications sent in your letter. ESA 1995 states that market prices are the basic reference for valuation, when recording transactions. This rule should also be taken into account for the calculation of depreciation of railway assets.

In this context, we take note of your confirmation that the 50% rule would not be complied with anymore if the consumption of fixed capital was valued using current prices instead of historical costs, and therefore the Irish Rail can not be considered as a market entity.

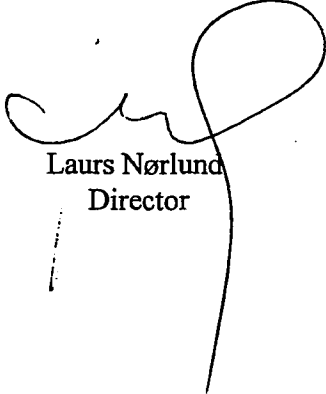
Conclusion

Based upon the above analysis, Eurostat concludes that the Irish Rail could be reclassified in general government, based on the 50% rule, pending clarification of the question of the holding company, to be discussed at the next Financial Accounts Working Party.

Procedure

We would like to remind you that Eurostat is committed to adopting a fully transparent framework for its decisions on debt and deficit matters in line with the amended Council Regulation 3605/93 and the note on ex-ante advice, which has been presented to the CMFB and cleared by the Commission and the EFC. Eurostat intends, therefore, to publish all future official methodological advice (ex-ante and ex-post) given to Member States, on the Eurostat web site. In case you have objections concerning this specific case, we would appreciate if you let us know. In any case (regardless of whether you have objections or not) we would like to receive an answer from you on the issue no later than 20 June 2007.

Yours sincerely,



Laurs Nørlund
Director