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Joint UNECE/Eurostat/OECD Meeting on National Accounts

Ninth Meeting

Geneva, 21-24 April 2008

**REPORT OF JOINT UNECE/EUROSTAT/OECD MEETING  
ON NATIONAL ACCOUNTS ON ITS NINTH MEETING**

Addendum

Summary of the discussion

**I. FIRST MODULE: SPECIAL SESSION FOR TRANSITION ECONOMIES**

1. The first part of the special session was devoted to measuring the non-observed economy in national accounts. The following issues were considered in more detail: measuring illegal activities, measuring services provided by private entrepreneurs and estimating owner-occupied dwelling services. The discussion was based on invited papers by Romania (ECE/CES/GE.20/2008/9), Tajikistan (ECE/CES/GE.20/2008/7), Ukraine (ECE/CES/GE.20/2008/8), OECD (ECE/CES/GE.20/2008/3) and presentations by OECD and Anders Nordin (independent expert). Supporting papers were provided by Azerbaijan (ECE/CES/GE.20/2008/SP.8), Belarus (ECE/CES/GE.20/2008/SP.10), Croatia (ECE/CES/GE.20/2008/SP.1 and ECE/CES/GE.20/2008/SP.2), Kazakhstan (ECE/CES/GE.20/2008/SP.9), Kyrgyzstan (ECE/CES/GE.20/2008/SP.6), Serbia (ECE/CES/GE.20/2008/SP.4 and ECE/CES/GE.20/2008/SP.5) and Tajikistan (ECE/CES/GE.20/2008/SP.7).
2. The measurement of illegal activities was considered based on examples from the EU technical assistance (TACIS) projects focusing on measuring drug production and trafficking, alcohol production, prostitution and smuggling. Methods to estimate output, intermediate

consumption and value added for these activities were also discussed. A survey among tax inspectors for estimating the misreporting of data in Tajikistan was presented.

3. The measurement of the activities of small private entrepreneurs by using ad-hoc surveys was discussed based on OECD projects carried out in the Western Balkan countries, and the experiences of Kyrgyzstan and Turkmenistan. Special attention was paid to ways of improving the data quality in the ad-hoc surveys of private entrepreneurs.

4. The user-cost approach for estimating owner-occupied dwelling services (imputed rent) was explained based on the experience of the Western Balkan countries. The user-cost approach is suitable for many transition countries where the percentage of dwellings rented is small, rental market is limited to principal urban centres, dwellings rented are not typical of the total housing stock and tenants are often foreigners paying unrepresentative rents. In these conditions, data on representative market rents are not available, therefore the user cost approach can be recommended as an alternative. It involves estimating the costs that the owners would need to take into account if they decided to rent out their property.

5. The second part of the special session dealt with the SNA93 update issues, providing an introduction to the measurement of capital services and the new treatment of Research and Development (R&D). It was based on presentations by OECD.

6. The principles and purpose of measuring capital services were explained. The measurement of consumption of fixed capital remains a key reason for capital measurement but two additional objectives have increasingly gained in importance: establishing balance sheets for economic sectors and measuring capital services for the analysis of production and productivity. The capital services are recognised in the revised SNA but implementation depends on the decision of the countries. The discussion showed that many countries who have not yet implemented the Perpetual Inventory Method would have difficulties in measuring the capital services and would need considerable time to implement this approach in practice.

7. The new treatment of R&D as recommended by the 1993 SNA Rev.1 was presented. How to derive estimates of Gross Fixed Capital Formation, the differences between the R&D survey data and that required for the SNA, and the transformation from one to the other were discussed.

## **II. SECOND MODULE: NATIONAL ACCOUNTS: TOWARDS 1993 SNA REV. 1 \***

### **Strategy for the implementation of SNA 1993 Rev.1 \***

8. The first part of the session was devoted to information on the status of the revised international standards - System of national accounts 1993 (SNA 1993) and European system of

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\* The discussion took place before the ISWGNA: Management Group made the decision that the Updated SNA will be called SNA 2008.

accounts 1995 (ESA 1995), and to related manuals and guidelines. The outcomes of the United Nations Statistical Commission and the proposed strategy, including five modalities to support the implementation of SNA Rev.1 (training; technical cooperation; manuals and handbooks; research and advocacy), were also brought to the attention of the meeting. The discussion was based on presentations by Paul McCarthy (Project manager of the SNA Update), UNSD and Eurostat.

9. The following points were made during the discussion:

- Country opinions are split concerning the title of the Updated SNA 1993: SNA 1993 Rev.1 or SNA 2008. Some countries recognise that the first one gives more emphasis on the continuity and stability of the system and reflects the fact that all the fundamental principals of the 1993 SNA are kept. It should also be taken into account that developing countries are still in the process of implementation of the 1993 SNA and they should not be discouraged. On the other hand, the latter title is preferred for practical reasons and would give users the impression of “currentness”;
- At the European level, there is no clear opinion on the title of the Updated ESA 1995. There is a slight preference for ESA 2008, but the final decision has not yet been taken;
- Chapter 26 on Rest of the world will differ from the current chapter 14. It will reflect the definitions of the Balance of Payments (BoP) Manual, Sixth edition and will cover the revised definition of international investment position and, in particular, the functional analysis of the BoP;
- It is extremely important to translate SNA 1993 Rev.1 and other supporting handbooks and manuals into Russian and the other official UN languages. Unfortunately, although such translation is foreseen, there are no definite plans to date. Currently, UNSD is focused on editing the English text of Volume I, which should be finalised by the summer;
- Following the request of the UN Statistical Commission, a High level group (HLG) on national accounts will be formed in order to discuss the future research and revisions of the SNA from the perspective of high level managers. The concrete modalities of the creation of such a HLG have not yet been worked out.

10. The second part of the session focused on countries’ planning and organization of the work on implementation of the SNA Rev.1. The discussion was based on invited papers from Statistics Canada (ECE/CES/GE.20/2008/19) and Rosstat, Russian Federation (ECE/CES/GE.20/2008/16), addressing key issues of the revision. Ensuring consistency across all macroeconomic statistics is the major concern of both countries. Another common problem faced by statistical offices around the world is the resource constraints – from the perspective of both budget for collecting the new data required and hiring, training and retaining skilled staff. Various data issues were also addressed: evaluation of available sources, response burden to collect the additional data, maintaining continuity and comparability of statistics. All these issues should be reviewed from users’ point of view and various consultation processes should be put in place.

11. The following points were made during the discussion:

- The measurement of capital services, capitalisation of research and development and the new treatment of goods for processing are seen by countries as the most difficult issues in the revised SNA;
- Setting up a detailed timeframe; discussion and coordination with all the stakeholders (related source statisticians, respondents, users, policy makers, etc.) is of extreme importance for the successful implementation of the revised SNA;
- It may not be obvious for the users that the implementation of the new recommendations is a resource intensive job. There are many changes, but the overall impact on GDP and GDP growth rates will not differ in size from that of the regular revisions of national accounts. Therefore, some countries may have difficulties in justifying the additional resources needed;
- The interactions between the statistical offices and other government agencies are very important. The revision will require new data and countries should switch from direct surveys to administrative data sources in order to avoid increase of the respondents' burden. It was noted, however, that in some countries, especially in the CIS region, the cooperation and coordination of data needs with ministries of finance and other government institutions was not always easy;
- There is increased interest in productivity analysis. In this respect, the estimates of capital services and labour inputs are important, but also the good division between volume and price measures. The transition economies face great difficulties in defining price and volume components in view of the high inflation. High inflation also prevents the estimation of reliable market prices of assets and measurement of capital services.

12. The meeting concluded that the implementation of the revised SNA will require a lot of resources, although some of the changes are relatively small in size. Even if the impact on GDP is not substantial, it could be very significant for certain components, which are important for policy purposes, and this information should be clearly communicated to users. The introduction of new data sources and new methods is difficult and therefore countries may take a step-by-step approach rather than trying to implement all recommendations at once.

### **Measurement of Research and Development (R&D) in National Accounts**

13. One of the important changes in the revised 1993 SNA will be the inclusion of R&D in the asset boundary. The UN Statistical Commission recommended that the capitalisation of R&D take place only after sufficient quality and international comparability of the estimates are achieved. In the transition period, countries should develop satellite accounts that will allow them to analyse the available data sources and methods and identify possible gaps and needs for further work. Detailed international guidance on how to implement the recommendation should also be developed.

14. The discussion was based on invited papers by OECD (ECE/CES/GE.20/2008/5), BEA, United States (ECE/CES/GE.20/2008/21), Statistics Norway (ECE/CES/GE.20/2008/14), Statistics Netherlands (ECE/CES/GE.20/2008/6) and a supporting paper by CBS of Israel (ECE/CES/GE.20/2008/SP.3). OECD informed the meeting about the recently formed Task Force that will develop a handbook on the derivation of capital measures of R&D and other intellectual property products. The four papers by national statistical offices presented the experimental work and recent progress in development of R&D satellite accounts. The received

empirical results are generally consistent and show a 1 to 2 per cent increase in nominal GDP and only small changes to the growth of GDP volumes as a consequence of R&D capitalisation.

15. The following points were made during the discussion:

- Countries have made different assumptions for the service lives of R&D and it would be interesting to analyse the sensitivity of the results. It was noted, however, that using different rates of depreciation will not substantially change the estimates of consumption of fixed capital of R&D, although the impact on the level of net capital stocks can be more substantial. More research into the meaning of service lives of R&D capital is needed;
- A specific problem confronted by countries is confidentiality of R&D data. Big countries have the comparative advantage in that a larger number of enterprises exist in the major R&D industries. For specific activities, though, the problem remains. The solution is to publish more aggregated data by industry;
- The inclusion of R&D spending in capital formation will accelerate the gross measures of growth, but will have little impact on the net measures, e.g. net domestic product. Nevertheless, the estimates are very important in order to study the development of the economy as R&D is a major driver of economic growth;
- Currently, countries are focused on compilation of annual R&D figures. In order to ensure consistency of national accounts, quarterly estimates also need to be derived. Some offices are starting to develop such estimates for the R&D intensive industries. As in many other areas, the quarterly calculations may need to be based on distribution of the annual data with suitable short-term indicators. The OECD Task Force on Intellectual Property Products is looking into this issue;
- Due to the limited resources of statistical offices, priorities in the development of R&D accounts have to be set. The first priority should be to change the R&D survey in order to meet the needs of national accounts. Canberra II has already reviewed the issue and a “wish list” was sent to the Working Party of National Experts on Science and Technology Indicators (NESTI);
- Concerns were expressed that a large number of assumptions are involved in the R&D estimates. In addition, while some countries are ready to implement the R&D satellite accounts more quickly, for others the process may take up to 10 years. This will affect the international comparability of national accounts data for quite a long period;
- Clear guidance is needed for the measuring gross fixed capital formation (GFCF) of R&D owned by non-market producers. Currently, some countries choose to recognize all their expenditures as GFCF while others choose to exclude them. This issue is being addressed by the OECD Task Force.

16. In conclusion of the discussion, the meeting identified a number of areas where future work is needed in order to ensure the successful implementation of the recommendations of the revised SNA on R&D capitalisation. Some of them are: development of quarterly estimates; guidance on service lives and the compilation of price indices; need for additional resources and revisions to surveys in order to collect the necessary data; confidentiality issues; need for clearer guidance on the treatment of R&D activities of non-market producers; etc. Certain concerns about the vulnerability of the estimates and the impact on international comparability exist, but it should also be recognised that R&D is not an unknown area. A lot of research has been done in

recent years and specific surveys collecting data on R&D expenditures are in place. However, the capitalisation of R&D within the framework of national accounts would require more time and efforts. The experimental estimates prepared by statistical offices show relatively consistent results, which is promising for the achievement of good quality data in the future.

### **III. THIRD MODULE: IMPACT OF GLOBALISATION ON NATIONAL ACCOUNTS**

17. The third module comprised the first meeting of the Joint UNECE/OECD/Eurostat Working Group on the Impact of Globalisation on National Accounts (WGGNA). The Working Group was established by the Conference of European Statisticians with the aim of reviewing the main distortions in the compilation of national accounts and related source statistics caused by the growing globalisation of economies.

#### **Introduction to the WGGNA and Research Agenda**

18. The meeting reviewed in detail the terms of reference of the WGGNA and the proposed research agenda. The newly created WGGNA website was also presented to the participants. The discussion was based on invited papers prepared by Statistics Netherlands (ECE/CES/GE.20/2008/12) and UNECE secretariat and the Leadership group of WGGNA (ECE/CES/GE.20/2008/11 and ECE/CES/GE.20/2008/17).

19. The following points were made during the discussion:

- When developing recommendations, the WGGNA should carefully take into account the possible impact on the production of the related source statistics. It is important to exchange views with all stakeholders. For example, trade statisticians in some developing countries are concerned that the new SNA and BoP treatment of goods for processing may lead to cutting resources on merchandise trade statistics and will impact the quality of the corresponding source data;
- The Task Force on International Merchandise Trade Statistics and the Task Force on Statistics of International Trade in Services met recently. The two Task forces are willing to cooperate with the WGGNA;
- The WGGNA will closely coordinate its research agenda with related groups. It should be made clear that there is no suggestion of stopping the collection of merchandise trade statistics based on physical movement of the goods, but rather to change the recording in national accounts;
- The participants suggested the following additional topics for inclusion in the research agenda: international tourism (with focus on the impact of tourism activities on popular destinations), flows of property income and international financial investment. Some of these issues could be merged with topics that are already on the WGGNA list;
- Much of the research and the globalisation indicators developed so far have been focused on the corporate sector. The households' involvement abroad is also increasing. Therefore, the research agenda should include a separate module on households.

20. In conclusion, it was noted that the WGGNA will take on board the different suggestions made during the discussion. All members of the WGGNA will have the opportunity to reflect further on the issues presented and send to the UNECE secretariat written proposals on topics for

the research agenda by mid-May 2008. The proposals should include a short description and motivation. Comments on the content of the WGGNA website should also be sent to the UNECE secretariat.

### **Goods sent abroad for processing and implications of the new treatment of goods for processing in the supply and use tables**

21. The SNA Rev.1 requires that the recording of goods sent abroad for processing follows a change of ownership basis. This treatment differs from the 1993 SNA, where the physical movement of the goods principle is applied. The Inter-Secretariat Working Group on National Accounts (ISWGNA) has requested the WGGNA to look into the main issues in relation to the implementation of the new recommendations and to propose operational guidelines. The discussion on goods for processing was split into two sessions. The first one addressed more general issues linked to the practical implications of the new treatment for the sequence of accounts and for economic analysis. The second session examined in more detail the impact on supply and use tables.

22. The meeting reviewed an issue paper prepared by Statistics Canada (ECE/CES/GE.20/2008/18) that will serve as a starting point for developing the operational guidelines. The discussion in the first session was also based on presentations by BEA, United States and Statistics Norway, and in the second session on presentations by Statistics Denmark and Statistics Netherlands.

23. The new treatment leads to improved consistency throughout the whole system of accounts and especially between financial and non-financial accounts. The financial accounts record payments for services and not the gross flows of the goods underlying those services. On the other hand the new treatment will affect the way in which the physical movement of goods, captured in merchandise trade statistics, is reconciled with the international flows to be recorded in the balance of payments and the SNA. The new statistical standards will require changes both in data collection and in statistical estimation. Some benefits and some drawbacks can be expected for supply and use tables. In addition, the analytical role of the accounts and especially of input-output tables will be affected.

24. The following points were raised in the discussants' comments:

- Although the GDP, trade balance and financial accounts should not be affected by the new treatment, certain timing differences may arise. The impact will be stronger on the supply and use tables, where adjustments and additional information will be needed;
- The timing issues are more important at the level of quarterly accounts. The data sources for export, import and inventories need to be adjusted to resolve the quarterly inconsistencies;
- With the introduction of the new treatment of goods for processing, the distinction between goods and services is becoming less relevant. The existing industrial classification should also be reconsidered, especially with respect to the manufacturing and wholesale activities;
- Maintaining consistency between national accounts and labour force statistics, energy statistics, environmental indicators and transport statistics is becoming challenging;

- The link between the national accounts and the industrial production indexes that are used for projection of output and value added should also be reviewed;
- The proposed treatment will also create certain difficulties for input-output tables as the presented technological structure will be misleading. It should be recognised, however, that problems with the analysis of the production structure already existed in the past due to the vertical integration of production units, the renting (instead of owning) of capital equipment and the different levels of outsourcing;
- It is proposed that a supplementary system that records processing on gross basis is introduced for input-output tables. Both the “net” and gross” estimates could be presented to users;
- The implementation of the new treatment will require additional information. Introduction of new data collections will increase the response burden and should be avoided. Among the options to be considered are: including additional questions in existing surveys; distinguishing processor and client units; surveying head offices instead of establishments; more extensive use of administrative data.

25. During the discussions, the following points were made:

- The examples show that the introduction of the change of ownership principle will have a big impact on the export and import estimates for the more open economies. But it will also bring the accounts closer to the actual economic processes taking place. Efforts should be made to explain to users the impact and the reasoning for the change;
- The changed treatment has the advantage that it will align national accounts with business accounting. It would be easier to collect information from the business sector on real transactions and incomes that are already recorded in their books;
- The treatment of goods for processing had to be revised in order to introduce consistency in the system of accounts. The recommended recording for foreign affiliates is now in accordance with the recording of the national transactions between local establishments. Overall consistency between financial and non-financial accounts is also achieved;
- The analysis of productivity would be affected by the new treatment, especially in developing countries, where total factor productivity is strongly linked to trade;
- The new treatment will also impact the deflators of output, because the standard indices for goods would no longer be suitable. The price of the processing service and appropriate weights should be used instead. Where there is a lack of proper indices, a possible solution would be to use the wage index of the corresponding industries;
- The new SNA treatment may affect economic growth estimates;
- Processing is also a problem at the national level, when regional accounts are compiled;
- In some cases the financial statements of enterprises consolidate local and internationally held inventories. The issue is particularly problematic for quarterly series;
- The industrial classification of the clients and the processors needs further consideration. Their production and technological structures might be quite different;
- Users’ perspective should also be taken into account in the debate for alternative recording of processing in input/output tables. There are diverging views as to whether users would prefer to see the technological structure or the actual financial flows reflected in the supply and use tables;



- The link between the production of goods and the transactions with related patents and licences should be kept in mind in the discussion for alternative recording of processing in input-output tables;
- The recommended new treatment will place the focus on the unit that actually takes the decisions in the production process. The importance of the establishments for the accounts will decrease.

26. In conclusion, it was noted that the new SNA treatment improves the overall consistency of the accounts, but gives rise to measurement problems as well. The classification of processors and clients is an important issue and needs further consideration. The users' needs for an alternative recording in input-output tables that follows the physical movement of the goods (e.g. in a satellite account) should be taken into account. In so doing, the analytical needs in relation to environmental accounting should be reflected upon. The need for additional micro records and the specific problems linked to the quarterly estimates should also be addressed. The issue paper will be revised to reflect the main points raised in the discussion and will be presented to the next WGGNA meeting.

### **Merchanting**

27. Merchanting activities are of increasing importance for the global economy and therefore comprehensive guidance on their recording is needed. As in the case of processing, the treatment of merchanting has been extensively discussed during the update of the 1993 SNA and the BPM. The implementation of the change of ownership principle adopted by these manuals will impact the recording of merchanting as well. Here too, the ISWGNA has requested the WGGNA to look into the main issues in relation to the implementation of the new recommendations and to propose operational guidelines.

28. The discussions were based on an issue paper by the Central Statistical Office of Ireland (ECE/CES/GE.20/2008/15/Rev.1) and presentations by ONS, United Kingdom and Anne Harrison, editor of the SNA Update. The treatment of merchanting proposed in SNA Rev.1 and BMP 6 is more adequate to the economic reality and resolves the difficulties raised by the existing reporting approach. Nevertheless, it focuses on the transactions in goods exclusively. A separate recommendation for merchanting of services should be considered, in view of their increasing importance in the global economy.

29. The following points were raised in the discussant's comments:

- There are clear benefits to the new treatment of merchanting activity as it solves the imbalances in the goods accounts, the inconsistencies between financial accounts and the balance sheets, the difficulties with inventories and holding gains and valuation of supply and use tables;
- It is important to have a clear definition of merchanting and to make sure that there is no misunderstanding or overlap with other activities;
- In some instances, the merchanting activities may happen for tax purposes rather than for real economic reasons;
- The net approach for recording merchanting of services could be counterintuitive in view of the recent revision of the SNA.

30. During the discussions, the following points were made:

- The new SNA recommendations address merchanting of goods. Some services have certain characteristics of goods and as such could also be traded internationally;
- Global manufacturing and merchanting are two separate categories and distinction should be made between them;
- There is a need for the clear definition of merchanting of services and what exactly should be covered by this category. Sometimes it could involve transactions in licenses, royalties, R&D services. Special purpose entities (SPEs) could also be associated with such activities;
- Transfer pricing is expected to have a major impact on the net export margins of goods under merchanting;
- The problem of transfer pricing in merchanting of services may be problematic to identify;
- Inventories of services are allowed to be recorded as financial assets on the balance sheet. This may solve the timing issue where the merchanting of services involves work in progress or is based on a long term contract;
- A possibility to collect the necessary data on merchanting is to use enterprise records. The financial statements of enterprises (and possibly VAT reports) contain gross data that do not appear in customs statistics. Direct contacts with the biggest merchants might be necessary.

31. It was concluded that merchanting is mainly associated with goods, but it could be increasingly found in service activities like telecommunications, computer services, training, etc. The borderline between goods and services is less clear and, if it is removed, some of the current problems could be solved. Transfer pricing is quite likely to appear in merchanting of services and it could distort the estimates. Merchanting is primarily a national accounts term and could appear under a different name in business accounts. Therefore, statistical offices should work with the company records and provide enterprises with a clear explanation of what data they require.

### **Multinational Enterprises (MNEs) and allocation of income in national accounts**

32. MNEs present special measurement challenges for national accounts and for balance of payments. They allocate resources, price intra-company transactions, and bill transactions in a manner that is designed to maximize global net profits; their accounting of activities and transactions may not align well with the underlying economic behaviour that ideally should be captured in the national accounts. In addition, national boundaries have a limited importance for MNEs. As a result, their business records may not provide the information necessary for accurate reporting in each individual country where they operate. These accounting issues are a significant problem because of the growing size of MNE activities.

33. The session was based on an issue paper by the Bureau of Economic Analysis, United States (ECE/CES/GE.20/2008/20) and discussants' presentations by the Central Statistical Office of Ireland, United Kingdom, Statistics Canada and Statistics Netherlands. The MNEs activities would impact real and nominal GDP, gross national income (GNI), import and export values and price indices, productivity measures, etc. Among the proposed solutions to deal with these

distortions are respondents outreach programmes, redesign of surveys and collection of data on the basis of the ultimate beneficiary owner. National accountants should work closely with business accountants in order to get advice and information on the valuing of specific transactions. Bilateral comparisons between countries, indirect estimates and other techniques may also provide useful results.

34. The following points were made in the discussants' comments:

- The increased outreach efforts give good results. Some statistical offices have set up a consistency unit that goes through all the data reported by the MNE and tries to reconcile it. The data from tax services following the arms-length transactions also provides some possibilities;
- Using mirror data and bilateral comparisons with main partner countries could show where the inconsistencies and potential problems are;
- Data on the ultimate origin and destination of foreign direct investment (FDI) has significant cost and response burden implications, but could be very informative;
- National accountants should visit directly the enterprises and work with the business accountants. This would allow them to collect the necessary data and provide ideas on valuation techniques and redesign of existing surveys;
- The transfer pricing may distort GDP measures. It should, however, be noted that the use of transfer pricing is subject to regulations in some countries and therefore most statistical offices are unwilling to adjust the enterprise records;
- Gross national income could become the preferred measure of economic performance, because value added and GDP are much more affected by MNEs activities;
- The new SNA treatment of recording processed goods on ownership basis provides a solution that better reflects the economic reality in cases where processed goods change product codes;
- A distinction between the legal and economic ownership should be made in the allocation of income linked to intangibles, e.g. in the case of offshoring of royalties and licenses, it is suggested that the parent enterprise is considered as the legal owner, whereas the affiliates are considered as the economic owners;
- Switch of the price collections from sellers to purchasers could improve the data on import and import price indices.

35. During the discussions, the following points were made:

- The bilateral reconciliation between partner countries could provide very useful information. IMF is planning a coordination survey of FDI that will cover more than 125 countries;
- There is a certain unease about a standard requesting change of transfer pricing, because there are real profits that are distributed across economies;
- The Task force on merchandise trade statistics is working on transfer pricing and it is expected to provide its view in the near future;
- In some cases, the transfer prices are set below the real market prices. Maintaining them has the advantage of ensuring international comparability. If a statistical office decides to adjust for transfer pricing, it would be extremely difficult to ensure that consistent

recording is made by the counterpart country. On the other hand, if transfer prices are kept, then the GDP and related measures will be biased;

- Even if statistical offices do not directly change the enterprise records and transfer pricing, they could look into the affected national accounts aggregates and consider adjustments there.

36. In conclusion, it was stressed that GDP and its components are still very important from an analytical point of view. The issue of legal versus economic ownership of intangible assets needs further investigation and clarification. The transfer pricing could be linked purely to tax minimization, but in some cases can be motivated by real activities and efficiency gains. The issue paper will be revised in order to incorporate the ideas proposed by the meeting.

#### **IV. MAIN CONCLUSIONS OF THE FIRST WGGNA MEETING**

37. On the basis of the presentations and discussions in each of the three topic sessions, the following conclusions were summarised by the chairman during the closing session:

##### **Goods sent abroad for processing**

- Under the new treatment of the SNA Rev. 1 and the Balance of Payments Manual, 6th edition (BPM6), no change of ownership will be imputed to goods being processed abroad. In line with this proposal, the BoP and the national accounts will no longer show the flow of goods but instead will show flows of processing services. On the basis of the discussions, there is general agreement that goods for processing should be recorded on a “change of ownership” basis, in line with the new treatment;
- The new proposal, which relates to the recording of the goods sent abroad for processing in the BoP and the national accounts, should be implemented in a consistent manner;
- Under the new treatment, data information that can be extracted from the supply and use tables will be affected. This especially relates to structural measures (e.g. productivity, environmental indicators) that are widely used for analytical purposes;
- In line with what was proposed in the issue paper, it would be useful for analysts (users) if statistical agencies preserve additional supply-use tables that record the gross flows of the processing industries.

##### **Merchanting**

- There is general agreement on the SNA Rev. 1 and the BPM6 proposals for recording merchanting transactions;
- The new SNA-proposals relate to merchanting of goods only. As a consequence, the issue of reporting “merchanting of services” should be further addressed. Important questions are what merchanting of services exactly entails; and how we can deal with it in line with the proposed treatment;
- There is a need for more narrow definitions for “global manufacturing” and “merchanting” activities. There is an agreement that these should be treated as two separate activities;
- Measuring merchanting activities is challenging: what and how do we collect data of such activities? These measurement issues need to be addressed in more detail.

### **Multinational Enterprises and Allocation of Income in National Accounts**

- Large multinational enterprises often take advantage of transferring goods, services and assets to foreign affiliates residing in countries with lower tax rates, and therefore the issue of (incorrect) transfer prices is important;
- There is reluctance to adjust for transfer prices, unless the prices recorded in the company's books are clearly wrong, and additional information on true market prices is available;
- Gross National Income (GNI) may become more important in future, because GNI is invariant to the use of misleading transfer prices, while GDP will be affected by (adjustments of) transfer pricing;
- Data availability on transfer prices through surveys and interviews with multinational enterprises may give new insights.

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