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Group of Experts on the Impact of Globalisation
on National Accounts

First Meeting
Geneva, 11-13 May 2009

**REPORT OF THE GROUP OF EXPERTS ON THE IMPACT OF GLOBALISATION
ON NATIONAL ACCOUNTS ON ITS FIRST MEETING**

Addendum

Summary of the discussion

Item 2: Multinational enterprises and allocation of income to national economies (follow-up discussion)

1. The meeting followed up on the accounting challenges posed by the Multinational enterprises (MNEs) for the national and balance of payments accounts, a topic that was already reviewed for the first time at the 2008 meeting of the Group of Experts on the Impact of Globalisation on National Accounts (GGNA). The importance of the activities of multinationals is signified by the fact that, according to the World Investment Report, foreign affiliates of MNEs deliver more goods and services to international markets than are delivered through cross-border trade. The discussion was based on an issue paper prepared by the BEA, US (ECE/CES/GE.23/2009/3).

2. One of the challenges that national accountants are facing is the shift of intellectual property rights by a growing number of MNEs to foreign affiliates. Often this shift aims at reducing the global tax burden by transferring income from high to low tax countries or to
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countries of convenience and makes the allocation of production ambiguous. The effect of these practices lowers the gross domestic product (GDP) and related components in high tax countries and raises income in low tax countries. Gross national income (GNI) however, should not be affected.

3. Transfer pricing, when flows of goods and services between a parent and affiliates are priced differently from what the market price would be, can create a number of distortions. Unfortunately, statistical offices have very little ability to adjust for erroneous transfer prices, because it is difficult to determine what the correct price should be and because the adjustment of one component or account leads to consistency issues and the need to correct several other accounts. International comparability is also difficult to achieve because the partner country should arrive at the same conclusion and make the corresponding adjustment. There is, however, some surveillance by tax authorities on the prices companies use.

4. Difficulties in the attribution of investment and income can occur when the immediate owners of the investments differ from the ultimate owners at the top of the ownership chain. To the extent that companies can and will report the information, there is a significant value to reporting investments in MNE's on an "ultimate beneficial owner" basis, in addition to the immediate counterpart basis required for conventional balance of payments accounts. The forthcoming fourth edition of the OECD Benchmark Definition of Foreign Direct Investment (FDI) has addressed the need to follow investments to their ultimate origins and destinations.

5. There are measurement challenges linked to outsourcing of intermediate services and to the change in price when switching from a domestic to a foreign supplier of inputs. It is important to achieve a good coverage of imports of goods and services, and in particular of services, which are sometimes difficult to track down.

6. The following points were made during the discussion:

- It was noted that the transfer pricing may not be an issue of such scale in OECD countries where tax authorities have developed rules for companies to use prices that are close to the economically appropriate ones. However, it may still remain a problem outside the OECD region;
- GDP may not be that meaningful measure any longer, given that statisticians cannot easily adjust for transfer pricing. Other measures of economic wellbeing like GNP or GNI are more precise in terms of eliminating the distortional impact of the MNEs;
- The issue of economic ownership of intellectual property rights was discussed extensively. The meeting explored the idea that property rights are always attributed to the parent company. Such a solution could be attractive in a number of cases, e.g. when subsidiaries in low tax countries get ownership of intellectual property and gather large amounts of income not corresponding to the actual activities. It was, however, noted that the patent cannot always be associated with the parent. The location where the property rights are created is also important. Deviation from business accounts could imply other accounting difficulties. Currently it is not possible to have a strict rule on who the ultimate owner is and further consideration is needed before a firmer recommendation is made;

- The transfer of property rights from the parent to an affiliate in a low tax country is a similar issue to transfer pricing and shell companies. In all cases, it is difficult to record the transactions differently from the accounting and taxation rules.

Item 3: Goods for processing (follow-up discussion)

7. The accelerated internationalization of production has led to increased volume of processing abroad: goods move from one country to another without changing ownership. The revised international standards System of National Accounts (SNA) 2008 and Balance of Payments Manual, sixth edition (BPM 6), recommend that recording follows the change of ownership principle. It is considered that this will better reflect the size and type of international transactions.

8. The impact of the above decision on the sequence of accounts was discussed on the basis of an issue paper from Statistics Canada (ECE/CES/GE.23/2009/4) and supporting papers from Hong-Kong, China (ECE/CES/GE.23/2009/15) and the IMF (ECE/CES/GE.23/2009/16). The issue paper is an update of a previous document incorporating comments received at the GGNA meeting in 2008. Illustrative examples and insights of the measurement challenges related to the revised international standards have also been added. After finalization the document will serve as operational guidelines for the implementation of the new treatment of goods for processing.

9. The new treatment will considerably alter the economic structure of the economy as presented by the accounts. Most affected will be the trade in goods and trade in services components, structure of industries, output ratios and measures of productivity. Nevertheless, even under the current standards, differences in the ratios were already observed as enterprises outsourced abroad. Another issue that statisticians should be aware of is that the mix of two types of producers within the same industry - traditional and contractors - will impact the input-output coefficients.

10. It is recognized that before the new standards are introduced many data collection issues have to be solved, among them: development of the business registers so that they can identify separately enterprises with different organizational structures and allow for proper stratification of sample surveys; review of the questionnaires and ensuring that the questions are clear to the respondents; etc.

11. The testing done by countries shows that the new treatment of goods for processing will lead to a different perception of the economy. Therefore, it is essential to warn users about the break in the series and that all the ratios, shares and rankings would change. Users should also be informed that there are many advantages in the new standards as they keep the accounts more consistent and close to the economic reality.

12. The following points were made during the discussion:

- It was mentioned that since the beginning of the financial crisis there has been a large drop in international trade, much of which has been recorded in manufacturing and in particular in intra-firm transactions. Therefore, it is important to keep track of goods for processing and intra-firm trade. This should be done through merchandise trade statistics;

- Attention was drawn to the impact of the new treatment of goods for processing on the country rankings published by international organizations. When the new standards are introduced, countries may be placed in a completely different way in terms of merchandise or Balance of Payment (BoP) statistics. This will also affect the consistency of time series. Although it is recognized to be a difficult task, users should be informed about the differences in statistical frameworks;
- It was noted that the new registration provides a purer way of recording the economic transactions and has certain advantages for the users, e.g. the link between world trade and domestic production will be less ambiguous;
- The need for sound compilation guidelines in order to help the implementation of the new treatment of goods for processing was emphasized;
- In many countries there is growing interest in integrated environmental and economic accounts. For this reason, the link between environmental indicators and national accounts should also be addressed in the paper;
- Two sets of Input-Output tables may be needed in the future: one consistent with the core national accounts and another one corresponding to the needs of environmental accounts, i.e. in the latter case transactions of processing abroad and processing between affiliated enterprises are recorded on a gross basis;
- Data based on commodities might become more important in the future than data structured by industries. However, it should be kept in mind that enterprises may have difficulties in providing data on a commodity basis;
- It was proposed to redesign the classification system in order to identify explicitly traditional producers from processors. Such separate recording could provide a solution for the integration of environmental accounts and allow linking of emissions to output.

Item 4: Merchanting (follow-up discussion)

13. The development of telecommunications services and Internet has greatly affected the size of international trade in general and merchanting activities in particular. As in the case of processing, the treatment of merchanting of goods has been changed in the new 2008 SNA and in the BPM6.

14. An issue paper from Statistics Ireland (ECE/CES/GE.23/2009/5) addressed the aspects of the revised recording of merchanting and outlined the approach adopted in Ireland. Supporting papers from Hong-Kong, China (ECE/CES/GE.23/2009/15) and the IMF (ECE/CES/GE.23/2009/16) were also taken into account in the discussion. The issue paper reflects the comments made at the GGNA in 2008. After a final revision it will be included as a chapter in the GGNA report and will serve as guidance for the implementation of the new treatment of merchanting.

15. It is recognized that the new treatment will address most of the problems associated with the recording of merchanting of goods. It resolves the difficulties with asymmetric recording, recording of inventories and holding gains and ensures consistent valuation. There are some potential issues related to the merchanting of services that still need to be explored.

16. As in the case of processing, there are a number of practical problems with the recording of merchanting. The supporting paper from the IMF indicated that the officially reported levels are

lower compared to the actual activities. More attention should be paid to the identification of merchanting operations. Merchanting could be carried out by a stand-alone entity. Such units can be identified by analyzing turnover and employment ratios from the business register or tax records. When carried out as part of the international activities of MNEs, merchanting should be recorded according to the same statistical principle. Special questions in the surveys of multinational enterprises could help to detect merchanting operations.

17. The following points were made during the discussion:

- There are a number of questions that have to be addressed when the new treatment of merchanting is implemented, e.g. how “Other changes in the volume of assets” account of the corresponding entities will be affected in the case of accident with the merchanted goods;
- One of the incentives to change the treatment of processing and merchanting of goods was the asymmetry between customs data recording the physical flows and enterprise data showing the ownership flows. Such mismatch does not exist for services, as they are based on enterprise data only. Therefore, there is no obvious need for a category merchanting of services that tries to reorganize the data;
- The need to record merchanting of services arises from the large scale of these activities for some countries. In such cases, the national accounts would show large value added, while no actual production is taking place;
- Recording re-export of services could be a way to address the issue. This will allow analysts to identify the part remaining in the country.

Item 5: Information on related working groups

(a) Eurostat Task Force (TF) on Multinational Enterprises

18. On the basis of invited paper ECE/CES/GE.23/2009/7, Eurostat informed the meeting about the work of the TF on multinational enterprises that was approved by the GNI Committee in April 2007. The mandate of the TF is to investigate the problems that member states face when dealing with the activity of MNEs and to propose guidance on identifying and inclusion of specific entities in national accounts as well as on measuring their operations. The TF will also examine the possibilities for cooperation between the statistical offices of the member states. The final report of the TF will be presented in July 2009.

19. As a result of the of the fact-finding exercise on recording of some cases of intra-group transactions, three problematic areas linked to the operations of multinational companies were identified:

- Transfer pricing;
- Recording of transactions related to the so-called global manufacturing; and
- Intra-group research and development imports and export.

20. The conclusions reached by the TF on intra-group transactions will be used as an input for further work, in particular for the implementation of the revised SNA.

(b) Working Party on International Trade in Goods and Trade in Services Statistics

21. The outcomes from the work of the OECD Working Party on International Trade in Goods and Trade in Services (WPTGS) were presented. Some of the topics discussed by the WPTGS are directly related to the GGNA research agenda:

- The revised international standards for recording goods for processing and merchanting. In spite of the general acceptance of the conceptual basis, there are concerns that the practical implementation will involve many problems;
- The OECD proposal for developing a unified classification system for trading goods and trading services is seen as a way forward for dealing with processing;
- The OECD Steering Group on Integrated Business Register (BEST) works on identifying units on business register with units on trade registers in order to obtain a better overview of their transactions.

22. The meeting was also informed about the work of the Wiesbaden Group on Business Registers, which met in November 2008. Among the topics discussed was measurement of multinationals and enterprise groups. One of the items of the agenda for the next Wiesbaden Group meeting, to be held in 2010, will be profiling of MNEs.

23. The OECD Handbook on Intellectual Property Products has been finalized and sent out to the Task Force members for final approval. Feedback was also sought by the NESTI Group (the Working Party of National Experts on Science and Technology Indicators). The handbook will then be submitted to the OECD Statistical Committee for approval and will be published in the second half of the year.

Item 6: International transactions in intellectual property (e.g. Research and Development)

24. The growing importance of international trade of intellectual property products (IPPs) and the recommended capitalization of Research and Development (R&D) in the 2008 SNA has led to an increased need for better data on IPP trade. However, many problems need to be solved before satisfactory recording of international flows of IPP and related income are achieved.

25. The meeting looked at the main difficulties associated with measurement of R&D transactions on the base of an issue paper by the OECD (ECE/CES/GE.23/2009/9) and discussant's presentation by Robin Lynch, UK. The paper builds on the findings of the OECD Task Force on Measuring of IPP. Two main issues identified by the Task Force and described in the Handbook on Deriving Capital Measures of IPPs are relevant to the GGNA: the need for an improved classification system for international trade in services and the recording of flows between affiliated enterprises.

26. In the absence of detailed data sources, the measures of the gross fixed capital formation in IPPs have to rely on supply methods. Therefore, good estimates of the import of particular products are important. The OECD Task Force concluded that the import estimates of IPPs are weak mainly due to the classification systems that are not detailed enough to collect the necessary data. The requested changes in the Manual on Statistics of International Trade in

Services and in the Extended BoP have been approved and the new breakdowns take into account the needs of national accounts.

27. Four types of transactions in IPPs between affiliated enterprises are important for national accounts:

- Cross border sales or license agreements;
- Cross border capital transfers;
- IPPs provided by parents to foreign subsidiaries without a fee but with the expectation of receiving property income in the future; and
- IPPs provided by foreign subsidiaries to parents without a fee but in response to previous foreign direct investment.

28. It is difficult to identify the corresponding transaction in the accounts of the MNE. Some information is available in the FDI and Foreign Affiliates Trade Statistics (FATS) surveys, but it is not detailed enough for the requirements of national accounts. The TF identified a need for more detailed and targeted surveys and developed a prototype questionnaire. The IPP Handbook describes the proposed survey.

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

- Fiscal engineering is the dominant motive for the international trade in IPPs. It is important to understand clearly the incentives of MNEs in order to develop good questionnaires and classification systems;
- The minimization of tax liabilities via transfer of R&D rights between affiliates of MNEs has grown to such an extent that the tax authorities in some countries are considering taxing multinationals on incomes from intellectual property abroad;
- The primary problem that national statistical offices have to overcome in order to develop proper estimates of IPPs is to find ways to collect the necessary information. MNEs may not be willing to respond to statistical questionnaires that could disclose their schemes to minimize global tax burden;
- Concerning the content of the paper, it well identifies the main issues of measuring international trade in IPP;
- The paper has to be developed to take the shape of a chapter in the final publication. More attention should be paid to the fiscal engineering aspect of IPPs' trade. The paper could also profit from indication of the size of the problem;
- By and large, international guidelines on recording of IPPs are straightforward and adequate. However, there are huge measurement issues to be solved: encouraging MNEs to cooperate in view of the sensitive information collected, valuing R&D products that are not patented, and the lack of a single best source of information.

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

- The Commonwealth of Independent States (CIS), Western Balkan and new European Union (EU) member countries that replied to the United Nations Economic Commission for Europe (UNECE) survey generally supported the proposed changes in the International Trade in Services and BoP classification;

- The Eurostat TF on R&D has a primary objective to test the ability of the EU countries to produce satisfactory estimates of the R&D assets;
- The tax avoidance schemes build by MNEs are artificial from the point of view of “physical” production measures. From a monetary perspective, these schemes are real, because they lead to generation of income and profits;
- In addition to minimizing tax burden, MNEs have other strategic reasons for international transactions in IPPs. The proposed survey should try to identify the incentives of the companies to engage in such activities;
- The transactions between affiliated enterprises account for a major part of the transactions in the intellectual property;
- In connection with the development of a satellite R&D account in the United States, a background paper explored issues linked to the allocation of R&D capital within multinational companies.

31. In conclusion it was noted that:

- All comments and questions will be taken into account in the revision of the chapter;
- It is recognized that the proposed survey may not be the perfect vehicle to collect the necessary information, but it is a way to approach the problem. In view of the problems identified, it would be useful for the Handbook on measuring IPPs to include supplementary information that points to the need of validation procedures. The work of the Wiesbaden Group on profiling is also expected to provide useful guidance;
- The major motive for transactions in IPPs is tax avoidance, but it is not the only one;
- The prevailing part of the international transactions in IPPs are capital and not current transactions. They will not therefore immediately affect the gross fixed capital formation and GDP. It is the recording of the subsequent use of the asset that will be problematic;
- Due to the lack of data, it is difficult to provide an estimate of the size of the phenomenon. But some other related measures could be used to provide an indication of the importance of the problem;
- The SNA does not require the capitalization of trade marks, but a large amount of the flows between affiliates is related to this type of IPPs. Those transactions should also be considered in the issue paper.

Item 7: Remittances and labour mobility

A. Remittances

32. Remittances represent transfers from developed to developing countries and are a major source of income and foreign exchange in many receiving nations. There has been an increasing importance of, and focus on, remittances since the 1990's. They affect key national accounts measures, e.g. compensation of employees, personal transfers, and capital transfers. The large differences between remittances compiled by donor countries and recipient countries underline the big measurement problems.

33. The session was based on issue paper on remittances by the United States Bureau of Economic Analysis (ECE/CES/GE.23/2009/12) and supporting papers by the Central Statistical Office of Czech Republic (ECE/CES/GE.23/2009/13) and the Bank of Russia

(ECE/CES/GE.23/2009/18). Remittances are an increasingly important type of transaction. Much progress has been made recently in defining remittances and providing statistical guidelines for their measurement in BPM6 and in the Compilation Guide. Nevertheless, a number of conceptual and measurement issues remain.

34. Among the conceptual issues to be explored is the need to combine different types of transactions in the remittances measures, the exclusion of transfers to non-profit institutions serving households, investment by migrants, corporate giving, etc. Data capture remains the major challenge with remittances estimates. Remittances are sent through a variety of channels: official and non-official, and it is difficult to collect the corresponding data.

35. The Czech Republic paper provided an overview of the migration from and to the Czech Republic and the estimate of foreigners' labour and remittances to their countries of origin. The Russian paper illustrated the approach adopted by the Bank of Russia in developing cross-border remittances statistics.

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

- The issue paper on remittances is very clear and focuses on the major national accounts issues related to their measurement. Good examples on the size of the phenomenon are given. In addition information on the impact of remittances on individual countries could be added;
- More attention should be paid to the concrete national accounts indicators affected by remittances and to the effect of possible errors on the main economic activity measures in a country such as gross national income, household income, household spending, saving, disposable income, etc.;
- The challenges of collecting good data on remittances are enormous: a large number of small size transactions that are difficult to capture, uncertain status of the transactors, most of the transactions pass outside of the official financial system, etc;
- The diagrams presenting the link between SNA and BoP headings and the remittances categories are very useful as it brings clarity on the scope of the various definitions and how they relate to the national accounts framework;
- Data compilers should be familiar with their remittance market in order to choose the best approach to collect the necessary data. The examples provided in the Czech and the Russian paper are a good illustration of this fact;
- The existence of more than one remittances measure is not a problem provided there is a clear classification system and definition of the corresponding categories;
- The variety of data sources does not hamper international comparisons as long as the methods and assumptions used are clearly described. It gives compilers the option to use the sources that best suit their country;
- Reconciliation through a supply and use framework would be very useful to test the assumptions made in estimating remittances and related national accounts;
- The work on developing conceptual concepts for remittances has been concluded after five years of effort, with the release of the BPM6 and the Remittances Compilation Guide. Now there are clear definitions that the compilers should follow. Nevertheless, much work remains to be done on improving the data that are compiled;

- Under BPM6, migrants' transfers and funds sent by migrants to their countries of origin to purchase real estate, to invest in local business, or otherwise for the migrant's own account are excluded from remittances measures because they do not represent household income. For specific users needs they might be added to the estimates, but it should be clear that they are not part of the agreed statistical definitions;
- In order to construct remittance measures, different BoP components should be combined. The publication of the Compilation Guide should result in improvements in remittances data;
- Several innovative elements are presented in the country papers. Another useful aspect is the identification of areas where the remittances data are weak. Pointing out the problematic areas and undertaking bilateral comparisons and further work will help improving the quality of the estimates;

37. The following points were made during the discussion:

- At present there is a good set of definitions related to remittances. Now the efforts should focus on compiling the real data. Reporting of data with geographical breakdown is very important, because one of the most promising approaches for improving data quality is comparisons with mirror flows;
- The difficulty in measurement of remittances is illustrated by the large discrepancy between global receipts (credits) and payments (debits) of remittances;
- It is useful to study this phenomenon not only from the standpoint of remittances impact on the economies that supply migrant workers, but also from the standpoint of the effect that migrant workers have on the economic development of the host countries. The knowledge of this effect would help to raise the social status of migrants and improve their working conditions;
- Differences between the Czech Republic and the Russian paper were pointed out. The first one presents internal procedures, i.e. the way they calculate figures, and the second focuses on analysis of the received results;

38. In conclusion, it was noted that BPM6 and the Compilation Guide provide the conceptual basis and the definitions for a set of remittances measures that could serve the needs of different users. While the conceptual issues are interesting the main challenge remain the practical measurement. Remittances are important transactions that can move through formal and/or informal channels. Compilers should know the national market in order to identify which channels have to be monitored and what methods to use. Cross-checks of the consistency of the estimates are also essential especially in view of the large gap between measures of global remittances based on recipient countries and on donor countries.

39. The issue paper will be further revised to reflect comments made at the meeting. In addition, the presented country papers will be included in the final GGNA document as case studies. Finally, countries were encouraged to express their views and to prepare and present their case in written form for the next GGNA meeting.

B. Labour mobility

40. The measurement issues linked to labour mobility were discussed on the basis of a paper by the World Trade Organisation (WTO) (ECE/CES/GE.23/2009/14). Trade in services through the presence of natural persons (The General Agreement on Trade in Services (GATS) mode 4) occurs when an individual is present in the territory of an economy other than his own country of residence to provide a service (service contract).

41. There is a lack of reliable and internationally comparable data on short-term labour mobility and trade in services through the movement of natural persons. The distinction between the two is based on the existence of corresponding employment and service contracts. Particular problems exist for self-employed persons and for labour provided via employment agencies. No international statistical guideline responds to the detailed information needs in relation to mode 4 type of service supply.

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

- The issue paper on labour mobility does not address national accounts measurement issues, but presents the view of the users of national accounts;
- Globalisation has brought greater cross-border labour mobility and trade in international services and raised the need of proper identification and measurement of both of them;
- The paper should include indication of the size of the problem and examples how the issues affect key national accounts measures. It should also provide further background information on why the split between cross-border labour mobility and trade in international services through the movement in persons is important for the GATS agreements;
- International statistical standards are developed in the Manual on Statistics of International Trade in Services (MSITS), which is currently being revised. These international statistical guidelines provide the necessary conceptual framework. However, there are serious measurement problems that need to be dealt with. Proposals on what to do in practice, common terminology, and further guidelines and research on the topic should be considered;
- Satellite accounts are an excellent way to develop new measures and to allow proposals to enter the main stream;
- It would be advantageous if authors would consider revising the paper to be more in accordance with the national accounts context. Several aspects that were addressed in the presentation should be incorporated in the paper.

43. The following points were made during the discussion:

- Labour mobility should be distinguished from trade in services. The important point is to identify with which institutional unit the contract is made;
- Official statistics should respond to users' needs. There is no clear terminology for labour mobility, trade in services and labour migration. In the absence of response from official statistics to this issue, international associations conduct their own surveys and are important data sources for completing the missing data in this field;

- The large amount of labour migration from Poland and the Baltic states increased economic growth in Norway. In the field of quarterly statistics, it was necessary to establish a survey in 2005 focusing on short-term emigrants. In the field of annual statistics, Norway already had sufficiently detailed information on wages and salaries paid to individuals;
- Labour mobility is a challenge for productivity measurement. It is also important for GDP, GNI and remittances measures;
- Mode 4 measurement was initially presented as an annex in the draft Manual on Statistics of International Trade in Services, but no conceptual framework was developed to measure the size and importance of GATS mode 4 trade flows.
- Another conceptual problem is that under GATS mode 4 commitments may last longer than one year. After one year the persons would be treated as residents in national accounts and no data would be available.

44. It was decided that the key issue is to distinguish employment relationship and probation of services. Users needs have to be taken into account when preparing the chapter for the GGNA report. The idea of satellite accounts for labour mobility could be explored further. The paper on labour mobility would be further revised in order to reflect better the national accounts perspective and will be presented to the next GGNA meeting.

Item 8: Special Purpose Entities

45. Caused by the increasing globalisation of economies, the number and effect of Special Purpose Entities (SPEs) is growing. There is no clear definition for all types of SPEs yet and no recommendations on how to deal with them in compilation of statistics. Therefore at the moment the treatment of SPEs is not harmonised in countries, which may distort GDP and impact the comparability of data. GGNA was to describe the difficulties and current practices with SPEs and to propose measures to be taken to move towards more concrete guidelines. The possibilities of exchanging information nationally and internationally between compilers were also addressed. The meeting reviewed issue papers prepared by Eurostat (ECE/CES/GE.23/2009/6) and Statistics Netherlands (ECE/CES/GE.23/2009/10). Discussant comments were presented by STATEC, Luxembourg.

46. The entities now referred to as SPEs have also been known by other names such as special purpose vehicles, shell companies, special financial institutions, brass plate/mailbox companies and international business companies. The term special purpose entity is now used in the System of National Accounts (SNA) 2008 and in the BPM6. As stated in the SNA 2008, no common definition is available.

47. The SNA 2008 provides some guidelines on the treatment of SPEs in the paragraph 'Special cases' in chapter 4 on institutional units and sectors. SPEs should be treated in the same way as any other institutional unit by being allocated to sector and industry according to its principal activity.

48. In 2007, several EU member states signaled the need for clarifications on the treatment in national accounts of foreign controlled entities having little or no physical presence. Clarifications were requested concerning the identification of institutional units, residence,

valuation, sector and activity classification. A TF on the recording of certain activities of Multinationals in National Accounts (MUNA) was set up by Eurostat in 2007. The TF concentrated on the collection of case studies in the EU member states. It is expected to complete its final report by June 2009 with more specific guidance and recommendations on the treatment of SPEs.

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

- It was noted that SPEs have already been identified in many countries. They exist mainly for fiscal reasons, but also for some other practical reasons. The question is should they be included in the compilation of national accounts or not;
- The definition of SPEs has been properly discussed in presented papers and there is reasonable agreement on different types of SPEs;
- Actual economic ownership should be taken into account when dealing with SPEs. Often the SPEs have purely legal ownership. The operating company abroad should be treated as the economic owner;
- The Eurostat TF has concluded that some factoring and merchanting companies could be SPEs. The difference between the two types is difficult to make, because their transactions were recorded in the same way in the business accounts. The Task Force decided that the distinction should be made on the basis of the change of ownership. Unfortunately, that information is not easily available;
- Concerning sector classifications, a Eurostat Task Force followed the recommendations of the SNA to allocate SPEs to sectors according to their principal activity. However, for practical reasons, in some countries (e.g. Netherlands and Luxembourg), all the SPEs have been classified into the sector of financial institutions;
- Measuring of the production of SPEs raises certain problems. If all the SPEs are treated in the same way, negative value-added can be expected. It was proposed that for financial holding companies that have no service revenues, the output be measured as sum of costs.
- The Eurostat TF has a slightly different approach towards measuring output of financial SPEs. If their fees are higher than costs, fees are taken as a measure of production instead of costs;
- When dealing with SPEs, it should be carefully understood why they exist. It is very important to know if there is production in an SPE or if it is purely legal construct to re-route the financial flows. Straightforward recording of observed flows according to normal national accounting rules may lead to very important distortions. Redefinition of flows may be necessary, even if that may lead to more asymmetries in external trade and BoP statistics.

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

- The UNECE survey on CIS, Western Balkan and new EU member countries revealed that SPEs exist in some of them but they are new phenomena and countries do not yet have enough knowledge of them. International guidance of their identification and treatment would be very useful;
- The discussion tackled the effects of SPEs, definitions of different SPEs, problems and solutions in the treatment of SPEs and proposals for future activities. At present, only a few countries (Netherlands, Ireland, Hungary and Luxembourg) mentioned including SPEs in

their national accounts. Some participants stated that, before including SPEs in NA, a very clear understanding of them is needed;

- It is important to understand the motivation of an SPE in order to ensure their correct treatment. MNEs use SPEs to change the form in which income and money are received by the parent company;
- To obtain better information on SPEs, a distinction is needed between SPEs that hold intellectual property products in the SNA sense and SPEs that hold trademarks, which are goodwill rather than assets;
- It was noted that the main problems with SPEs are the difficulty in identifying their units and the lack of data. In some cases, SPEs refuse to disclose information for confidentiality reasons;
- With SPEs it is crucial to identify which part of imports is immediately re-exported again. If this is not done and exports are regarded as production, there will be a sharp increase in value-added of SPEs
- It was agreed that, in order to collect the necessary data on SPEs and to achieve better coherence, changes in the statistics act might be required. Tight cooperation between the compilers of different statistics (Central Bank and National Statistical Office) is needed. Furthermore, companies acting on behalf of another company should be obliged to report their data for statistics;
- Some steps suggested for use with SPEs are: (i) to identify and decide whether a company is SPEs and what type of SPE; (ii) to collect data for the entire SPE (royalties and licences, dividends and retained earnings); and (iii) to treat the SPEs in the same way as fully staffed companies within the same activity of NACE or within the same sector;
- Cooperation between the authorities is needed in order to identify the number and type of SPEs in an economy. Comparison of the population regarded as SPEs in the registers of different institutions has proved useful;
- In some countries it has proven to be good practice to publish the financial accounts with and without SPEs. For example, in Hungary the SPEs present a crucial problem, resulting in the introduction of significant revisions e.g. to export figures;
- It was agreed that good quality statistics on SPEs cannot be produced without comparison of results between countries.

51. It was concluded that GGNA will continue to follow the international work on SPEs: The following international initiatives are important in this respect:

- The development of the two new manuals for trade in goods and trade in services. Next year's meeting will discuss the progress with these manuals;
- The work on registers is an important topic to monitor and the SPEs are to be taken into account in developing registers at EU level;
- The SPEs are also discussed under working groups on FDI and R&D statistics;
- Final conclusions and information from the Eurostat Task Force will be discussed.

52. Since there is a lot of interest and complications with SPEs, a subgroup was created to work with the Netherlands in order to reformulate the issue paper and move towards concrete guidelines before the next GGNA meeting. The subgroup consists of Cyprus, Hungary, Ireland, the Netherlands and Russian Federation. Cyprus and Russian Federation agreed to analyse the

activities of SPEs between their countries as a case study. Participants agreed that consistent measurement of national accounts with regard to SPEs requires international cooperation and cannot be solved nationally.

Item 9: Foreign direct investment

53. Foreign direct investment (FDI) transactions have grown substantially in the world economy. Discrepancies between inward and outward financial transactions and between income credits and debits have also grown sharply. There are a number of difficulties associated with measuring direct investment: identifying direct investors, direct investment enterprises and fellows; consolidating differences between business registers; conducting a survey so that the respondents provide data according to the concepts; and ensuring that the data reported by the investor are reported using information from the books of the direct investment enterprise. The discussion was based on an issue paper by IMF (ECE/CES/GE.23/2009/8) and discussant presentation from Statistics Finland.

54. Before the revision of the SNA, there were significant differences between the BoP and SNA requirements. Now the conceptual frameworks are consistent, but the data are organized differently. The functional categories in the balance of payments and international investment position accounts are based on the motivations of the investor, as opposed to the instrument-based classification in the 2008 SNA. Direct investment is one of the five functional categories in the BoP and International Investment Position accounts. Foreign investment is considered direct when an investor in one economy obtains interest in an enterprise in another economy so as to confer a significant degree of influence.

55. FDI is closely linked with the statistics of the Activities of Multinational Enterprises (AMNE) and Foreign Affiliates Statistics (FATS). FDI affects the following national accounts measures: retained earnings of direct investment enterprises in the income and financial accounts; and direct investment transactions as memorandum items in the financial account (debt securities, loans, equity, trade credit, other). In addition, data on receipts and payments of foreign-source income, including direct investment income, are needed in differentiating between GNI and GDP.

56. To improve the quality and availability of data on foreign direct investment, the IMF, in conjunction with its interagency partners, launched a 2009 Coordinated Direct Investment Survey (CDIS). The Task Force formed by IMF (June 2007) has prepared a guide on the CDIS (<http://www.imf.org/external/np/sta/cdis/index.htm>). Also 10 regional seminars on the CDIS were conducted in 2008. The data are scheduled to be reported to the IMF by the end of September 2010, and it is hoped they will be published by the end of 2010/early 2011. Work is now underway in European task forces, namely in the working group on Balance of Payments. The work for Eurogroups register also supports the development of more consistent statistics on foreign direct investment.

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

- There are some problems in the compilation of FDI with a significant impact on the figures of gross national income;

- Firstly, problems are caused by the necessity to estimate reinvested earnings and profits before the annual survey becomes available;
- Secondly, there are difficulties with the concept of current profit, since identification of holding gains and losses is not supported by IFRS;
- Thirdly, asymmetries to sector accounts are introduced by the different treatment of reinvested earnings on FDI (between reinvested earnings of government vs. government owned enterprises);
- In addition, difficulties are caused e.g. in Finland by the fact that foreign unincorporated branches are included in inward FDI only if separate accounts are available. Problems also arise from construction projects, if there is no affiliate abroad, but should be treated as a direct investment unit;
- Coherence should be the main goal for the future development of FDI statistics: coherence inside the country and between the economies. The first step towards coherence is to use a common business register with one single identification number and the second is both the preparation of Eurogroups register and the CDIS survey;
- A foreign direct investment network is under development in EU countries;
- To describe global transactions more consistently, obstacles to cooperate between compilers due to confidentiality should be removed. The new regulation on European statistics with regulation for exchange of confidential data solves part of the problem.

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

- The countries that responded to the UNECE survey recognised the importance of good FDI statistics and the need for close cooperation between the compilers of BoP and national accounts. All countries reported difficulties in compiling FDI and supported the ongoing international work, namely the IMF CDIS and the Eurostat working group on BoP;
- Many countries underlined the importance of international cooperation in agreeing on common practices. Some countries proposed to create more international guidelines for dealing with complex ownership structures;
- Close cooperation between the producers of BoP and national accounts was considered essential in improving quality and consistency of data across statistics. In most countries, FDI statistics are compiled by the Central Banks that rely mainly on banking transactions data and are not used to conduct surveys on the basis of business registers. Sharing of experiences and using common registers for enterprises were strongly supported;
- Consistency between countries is difficult to achieve, also because data sources and frequencies vary. Problems in the comparability between economies arise as well when the counterparts are not correctly identified in different countries;
- The purpose of the CDIS is to improve the quality of data and to move forward in the process of measuring FDI in all countries. The data collection should be on immediate counterpart basis;
- Additional information is needed on dealing with positions between fellow enterprises and recording investments as inward (non-resident) or outward (resident). Information about whether the controlling parent is resident or non-resident of a country is required;
- In many countries the revisions of reinvested earnings have been a problem. A few potentially successful ways of reducing the revisions were discussed;

- The following approaches to estimate the data for non-responding units were mentioned: ratios of the responding units, structured by geographic region and use of secondary data sources (prices of goods, demand for services, dividends and some other indicators). Some countries noted that it is helpful to have a legal obligation for companies to report the data. The estimates of income statements made by market analysts have also proven useful as a tool for validation of the estimates;
- There is no single solution to eliminate occasional revisions. Sometimes they are caused by changes in international standards;
- Because of the financial crisis there are, at present, a number of write downs on financial positions, which may introduce late revisions to the data. Write offs are regarded as capital loss in national and international accounts. If the loss of bank on mortgages is regarded as an operating loss, the counterpart would have to be treated as operating gain;
- The participants agreed that revisions are a necessity and lack of revisions only means that the errors have not been spotted. Good communication with the users is essential: a pre-announced revision schedule and identification of data sources that have been brought in would guide the users in interpreting the differences.

59. In conclusion, it was noted that participants shared many of the concerns and problems raised in the paper and presentations. Significant problems in compilation were noted with reinvested earnings and with the impact of data revisions. Countries expressed strong support for the recent work with the Coordinated Direct Investment Survey (CDIS) and the task forces working with the measurement of foreign direct investment. General agreement was reached that it is important for compilers to cooperate and that coordination is needed not only between the Central Banks and National Statistical Offices, but also between countries (e.g. in Europe under the new regulation).

Item 10: Transit trade and re-exports

60. Transit trade is when goods go through a country on their way to the final destination country, and these transactions are generally excluded from foreign trade statistics (FTS) and BoP. "Re-exports" describes transactions in goods which are imported into a country by a resident and then re-exported to a third country within the same economic union or customs area. Re-exports are generally included in FTS, BoP and national accounts. "Quasi transit trade" includes transactions in goods imported into a country and cleared by an entity considered non resident and then re-exported to a third country within the same economic union or customs area. The boundary between re-exports and quasi transit trade is only based on the residency of the owner of the goods.

61. In practice, there are many measurement difficulties with the above transactions, which were addressed on the basis of an issue paper by Eurostat and ECB (ECE/CES/GE.23/2009/11), supporting paper by Eurostat (ECE/CES/GE.23/2009/19) and discussant presentations by Statistics Netherlands and the National Bank of Belgium. Quasi transit trade is a pernicious problem for the compilers of trade statistics and balance of payments statistics but also has consequences for the compilers of national accounts. It is linked to the peculiarities of the merchandise trade data collection system in the EU and is traditionally described as the Rotterdam effect. However, some experts believe that such phenomenon can affect trade

between any pair of countries where goods are transported via the territory of one or more other countries before reaching the country of final destination.

62. It was discovered that the discrepancies between the trade in goods data in the BoP and the rest of the world sector of the Quarterly European Accounts were due to quasi transit trade. Special recommendations have been developed for the compilation of the European Balance of Payments and European Accounts. It is recognised that, with the new SNA and BoP manual, the problem with transit trade would not exist if data sources follow strictly the change of ownership principle. In practice, however, this would be difficult to achieve. Changes are also needed in collecting merchandise trade data

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

- Quasi-transit trade represents a problem for European Union Accounts but also could affect the national accounts of the member states;
- The creation of a national institutional unit that imports services is the solution found in the European Union for capturing correctly the trade margins related to quasi transit trade;
- The paper introduces clear definitions on transit trade, re-export and quasi transit trade. It needs further description of the background of transit trade;
- The SNA follows the change in ownership principle, while foreign trade statistics is focused on the physical crossing of the border by goods. Nowadays crossing the border is no longer the moment of actual change in ownership and the values of both transactions are not the same. The disconformities between the main data source on foreign trade, customs data, and the SNA definition are the reason for the price gap and the quasi transit trade issue. Customs data provide extremely reliable statistical information, but do not necessarily reflect the change of ownership;
- At country level, supply and use tables will show discrepancies that have to be balanced. GDP could also be affected depending on the balancing adjustments;
- The proposed solution for balancing supply and demand at the country level is using import of trade margins;
- The 2008 SNA and BPM6 do not help in solving the problem with the different requirements for national accounts and customs statistics. The modernized community customs code could be partially helpful.

64. The following points were made during the discussion:

- Non-EU countries reported having big differences in foreign trade, especially with countries from EU that could be due to quasi transit trade;
- The number of non-resident units that operate through fiscal representation has increased in the last few years. Following European regulations, they can be identified directly from fiscal authorities but the measurement issues remain huge. Further guidelines are needed to help countries deal with this problem;
- The proposed solution with trade margins needs to be further discussed from a national accounts point of view;
- Quasi transit trade often has nothing to do with pure trading activities but is linked to subcontracting as a part of global manufacturing. R&D and marketing costs could be the reason for the discrepancies between import and export prices, but also between production

and export prices. The national accounts of many countries will be affected by this phenomenon;

- Statisticians are forced to use more and more administrative data sources. These data sources, e.g. customs data, often do not correspond to the transaction that has to be measured. Possibilities to impact the administrative data to bring them in line with statistical needs should be explored;
- The guidelines for the imputations related to quasi transit trade refer only to current prices. The constant prices should also be considered in the national accounts framework.

65. In conclusion, it is pointed out that the paper clarifies the distinction between transit trade, re-export and quasi transit trade and outlines the measurement problems associated with them. The paper will be further developed to reflect the comments received. Quasi transit trade is an issue not only for European accounts, but affects also the accounts at national level for the EU and non-EU countries. To adjust for the discrepancies, Eurostat BoP Unit proposed imputation of trade margins under services. This solution should further be discussed from the national accounts perspective. The problems arising from transit trade will most likely persist even with the revised international manuals, because the main data sources for foreign trade remain the same.

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