

Service related Global Production arrangements (*Merchanting or Arranging of Services*)

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Arranging of Services (Merchanting)

- ▶ On the research agenda for UNECE Globalization programme
- ▶ Chapter 10 devoted to this matter in Guide to Measurement of Global Production (developed jointly with WTO)
- ▶ Previously discussed in Guide to Globalization in National Accounts

Current Standards

- BPM6*similar in some ways to merchanting of goods, because the services are purchased and resold” (BPM6 par. 10.160*
- MSITS 2010.....*Service subcontracting entails the purchase and sale of services without any significant transformation of the service (MSITS 2011 par 3.74)*
- SNA 2008 No merchanting of services discussion

ISIC4 and Classification of Merchanting/ Arranging of Services

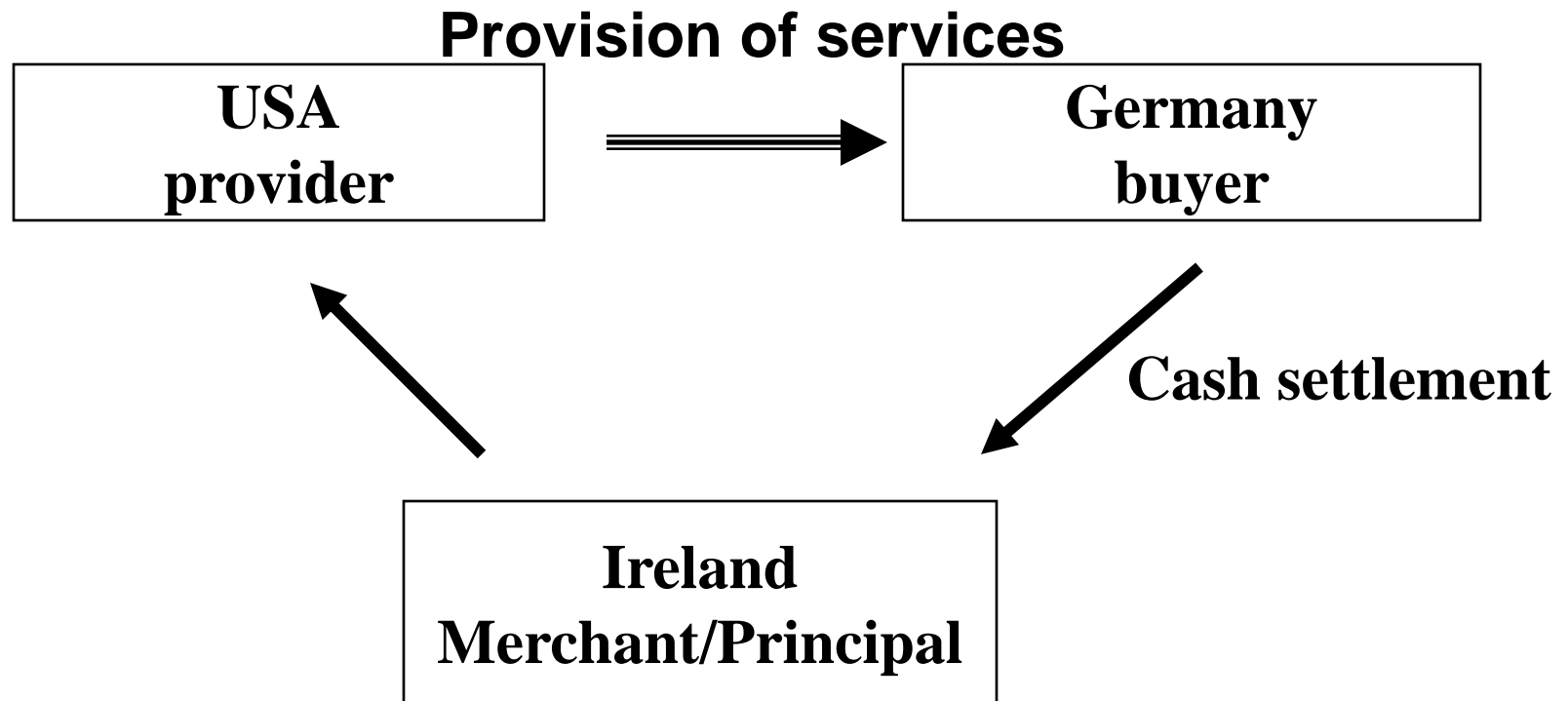
- In some cases, units sell goods or services under their own name but the actual production, such as the physical transformation process in the case of manufacturing, **is carried out fully or in part by others** through specific contractual arrangements. (par 136)
- In general, if the principal outsources the complete production process of a good or service, it is classified as if it were **carrying out the production process itself**. This applies in particular to all service-producing activities, including construction.(par 142)
- In the case of bundled products including both goods and services it is very difficult to determine if **transformation** has occurred or not - not generally a case of merchanting of services



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Basic Framework

Merchanting or arranging of services



Merchanting of Services

Should apply where distribution of services occurs

- Transformative services (education, health etc)
- services intermediation

But

- not acting as an agent – when commission based

And probably not

- services subcontracting or outsourcing

Questions to be answered

- Are the producer and consumer engaged in the purchase/sale of a service or is there a triangular sequence of service transactions?
- Does the intermediary obtain an implicit or explicit margin?
- What is the best way to present these transactions - net
- Without transformation – how to verify?
- The intermediary arranges the supply without being engaged in the actual operation of the service?
- Identify the business models involved ?

Not like classic merchandising

- Internet based/ enabled services
- Trading within MNE groups
- Trading by undisclosed principals
- Tax planning

Activities and Sectors where it occurs?

- Trade in software licences
- Warranties for computer hardware / software
- Clinical trials
- Marketing
- Sale of manuals – soft copies
- Education services
- Au pair services

Actual activity where merchandising of services occurs in Ireland

58290 - Other software publishing

61900 - Other telecommunications activities

62010 - Computer programming activities

62020 - Computer consultancy activities

82990 - Other business support service activities

How to identify?

- Small number of staff
- All accounts
- Absence of software developers or research staff
- No IPP, no IT personnel, no qualified staff
- Nature of business versus number of staff

Example 1

Irish entity
Staff = 8

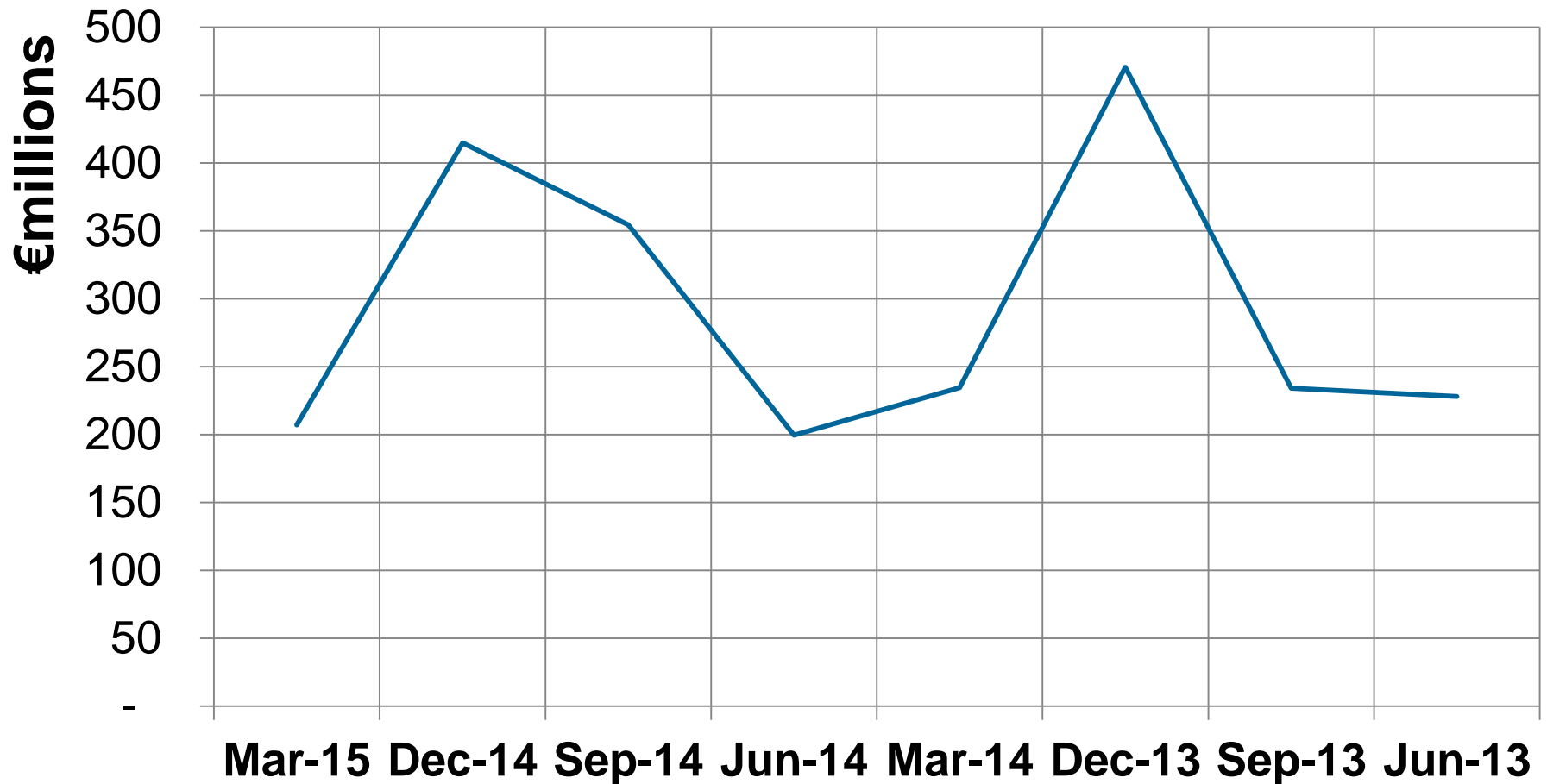
Purchases from LU royalties - rights to sell licenses = \$577m

Sales of software licenses to 20 – 30 countries = \$600m

Merchandising margin ≈ \$20m

Scale of activities in Ireland

Merchanting services - quarterly



Arguments

- Opportunity to earn a return
- Intermediation or trading occurs in many other activities why not in services?
- Services not physically produced - no inventories
- Mainly web enabled services
- Allows merchanting from anywhere to anywhere

*Does it matter? Where merchandising of
services could occur in the future or in
the present*



Conclusions

- Industrial classification, National Accounts and Balance of Payments generally indicate towards a gross recording of merchanting of services
- Units engaged in these activities regarded as producers of the services
- Potential distortion of data through gross recording - inflated aggregates
- Potential for significant future growth in this area – first step is to quantify the extent of it now

Merchanting of Services

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Thank You



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