



Progress Report on Work Undertaken by the Globalization Task Team

UNECE Group of Experts on National Accounts

May 2022

Michael Connolly : Co-chair of TT

Outline

- Overview of the GZTT Work
- Review of Guidance Notes
- G.9 Payments for Knowledge-based Capital (marketing assets)
- Way forward

Issue No.	Research Topic	Classification	Links to other TTs	Status
High-priority items				
G.1	Valuation of imports and exports (CIF-FOB adjustment)	H	CATT	Presented and discussed at the joint BOPCOM/AEG meeting on October 26, 2021. Status quo to be maintained, but conceptually invoice values is recommended. Sent for final endorsement May 2022
Treatment of multinational enterprises (MNE) and special purpose entities (SPE), Identifying economic presence and residency, and Intra-MNE flows				
G.2	Treatment of MNE and Intra-MNE Flows	H	DITT	Presented and discussed at the joint BOPCOM/AEG meeting on October 26, 2021. Sent for final endorsement May 2022
G.3	Transfer pricing within MNE group[#]		DITT	Dropped. Included in G.5
G.4	Treatment of special purpose entities and residency	H	DITT	Presented and discussed at the joint BOPCOM/AEG meeting in March 2022. GN was approved at the joint AEG and Committee meeting in March 2022.
G.5	Economic ownership and recording of intellectual property products [#]	H	DZTT, DITT	Presented and discussed at the joint BOPCOM/AEG meeting in March 2022. GN was approved at the joint AEG and Committee meeting in March 2022.
Medium-priority items				
G.6/C.4	Merchanting and Factoryless goods producers and recording of their transactions	M	CATT	Presented and discussed at the joint BOPCOM/AEG meeting in October 2021. Sent for final endorsement May 2022
G.7	Global value chains and trade in value-added	M		Presented and discussed at the joint BOPCOM/AEG meeting in March 2022. GN was approved at the joint AEG and Committee meeting in March 2022.
G.8	Typology of global production arrangements	M		Dropped. Included in G.6
G.9	Payments for “knowledge-based capital”	M	DZTT	Presented and discussed at the joint BOPCOM/AEG meeting in March 2022. Needs testing. To be completed by December 2022

G.1 Valuation of Imports and Exports (CIF-FOB Adjustment)

- Guidance note (GN) on the adoption of transaction (invoice value) for the valuation of imports and exports
 - Further consultation and testing to understand the practical feasibility of the preference for recording of exports and imports of goods at their observed transaction value.
- Launched on March 12, 2021, simultaneously on UNSD and the IMF's *BPM6* Update webpage. Responses for stage 1 due April 12, 2021.
- Stage 1 closed April 2021
- Stage 2 closed beginning of September 2021
- Discussed at the joint AEG-BOPCOM session October 26 – November 1, 2021.

Decisions:

- ✓ **Option 3**—valuing exports and imports of goods at **invoice values**—is **conceptually sound**, but in light of the practical difficulties the **status quo (Option 2) is being recommended as part of the current BPM and SNA update.**
- ✓ **Option 3 will be the standard in the next round of BPM and SNA updates**, with an understanding that economies should start preparing for a transition to the use of invoice values as of the next update of the manuals
- ✓ **Collection of invoice data will be explored through the International Merchandise Trade Statistics (IMTS)** and experimentation by economies should ensure the quality of the data.

Final version of the GN is ready to be circulated to the AEG and Committee for endorsement.

G.2 Treatment of MNE and Intra-MNE Flows

- **GN proposes highlighting MNEs**—recommend a breakdown (e.g., **foreign-controlled corporations and national private/public corporations which are part of domestic MNEs**) in the national accounts through the institutional sector accounts (ISAs), eSUTs (extended supply-use tables), and/or gross value-added (GVA) should be determined by :
 - national agencies dependent on their statistical production process,
 - users’ analytical and policy needs.
- GN incorporates:
 - A refined definition for MNE, emphasizing “control” as defined by *BD4* and *BPM6*,
 - A decision tree to guide national compilers.
- Global Consultation closed at the beginning of August 2021.
- Discussed at the joint AEG-BOPCOM session October 26 – November 1, 2021.

Decisions

- ✓ **Unanimously agreed** with the **proposed definition of an MNE, the alignment of the SNA with the *BPM6* and *BD4* with respect to the control aspect associated with foreign controlled entities** and the inclusion of the decision tree for allocating MNE units to institutional sectors.
- ✓ Include emphasis on **Net** indicators and supplemental granular information.

Final version of the GN is ready to be circulated to the AEG and Committee for endorsement.

G.4 Treatment of Special Purpose Entities and Residency

GN recommends no change made to the residency principle in the SNA and BOP frameworks, SPEs with non-resident parents should continue to be classified as institutional units in the economic territory in which they are located.

A **definition** of SPEs that is **consistent between national accounts and external sector statistics**.

Entities incorporated in the same economic territory as their parents but not consolidated on account of being autonomous (households or securitization vehicles) **will not be termed as SPEs** for purposes of separate identification or data collection. These units will be classified based on the specific type of activity (e.g., domestic securitization vehicle or trusts).

Distinguishing **separate “of which” category** (within the non-financial and financial corporations’ sectors) for foreign-controlled SPEs.

- Global Consultation closed at the beginning of August 2021.
- Discussed at the joint AEG-BOPCOM session March 7 -10, 2022.

Decision

- ✓ **Unanimously supported the proposals** on (i) adopting the SPEs definition, in both *BPM7* and *2025 SNA*; and (ii) integrating the proposed breakdown of foreign controlled SPEs within the ISAs for countries for which SPEs are significant, leaving the core BPM and SNA framework unchanged.
- ✓ Agreed to drop the term “foreign controlled” before SPEs given that the definition already contains foreign control as one of its elements.

GN was approved at the joint AEG and Committee meeting in March 2022. Final version to be posted on both the BPM6 and 2008 SNA update websites in due course.

G.5 Economic Ownership and Recording of Intellectual Property Products (IPPs)

- GN considers 5 options on how to determine economic ownership of IPPs; recommends assigning economic ownership depending on the scenarios under consideration
- GN proposes to adopt the *GMGP* Decision Tree (**option 4**) for the determination of the economic owner of IPP across an MNE Group
 - Does not propose a change in the conceptual standards of assigning economic ownership based on risks and rewards.
 - ***Decision Tree should be seen as a tool to assist compilers in how to interpret risks and rewards in the case of IPPs.***
 - Attributes economic ownership of IPPs to an SPE, aligned with the GZTT GN G.4 “Treatment of SPEs and Residency” and as per the IMF’s “Operational Guidelines on SPEs”.

Decision:

- ✓ **Unanimously supported the proposals**, agreeing with (i) the economic ownership (parent, producer, production affiliate), for previously produced IPP, depends on the underlying arrangement such that a default solution cannot be considered, (ii) the *GMGP* Decision Tree as a useful instrument, and (iii) the SPE holding the IPP assets to be the economic owner of the assets.
- ✓ Noted that the decision tree could at times result in more than one company within the group owning the IPP, which may require guidance on how to apportion the IPP.

GN was approved at the joint AEG and Committee meeting in March 2022. Final version to be posted on both the BPM6 and 2008 SNA update websites in due course.

G.6/C.4 “Merchanting and Factoryless Goods Producers and Recording of their Transactions”

- GN recommends treating **factoryless goods producers (FGP)** as **manufacturers**, regardless of any affiliation with the contractor responsible for transforming the goods.
 - Consistent with the task team on ISIC (2021) recommendation
- The **output of the contractor recorded as a good** when the contractor takes ownership of the material inputs (*where IPP and the management of the production process are provided by the principal—FGP type arrangement*), and as a **service** when the material inputs are owned by the principal (*—typical processing arrangement*).
- Balance of payments standard component of goods adjusted to cover the transactions related to goods traded as part of a global manufacturing arrangement as a distinct item.
- Annex updates the Guide to Measuring Global Production (GMGP) typology for FGP-type arrangements with the recommendations of this GN.

Decision:

- ✓ Agreed with proposed treatment of FGPs.
- ✓ Members sought clarification on the impact of the proposed treatment on traditional manufacturers engaged in international transactions that are currently recorded under merchanting.

Final version of the GN is ready to be circulated to the AEG and Committee for endorsement.

G.7 Global Value Chains and Trade in Value-Added

- GN recommends no conceptual changes are required.
- Discusses TiVA estimates, eSUTs, and GVC satellite account.

Decision:

- ✓ **Unanimously supported the proposals**, namely **including descriptions of GVCs and TiVA** in the **next set of manuals** and supporting the development of supplementary information for GVC analysis.
- ✓ Some members underscored that the supplementary information should **remain voluntary and not be embedded into official statistics**, considering countries' varying degrees of statistical capacity and scarce resources.
- ✓ A few members pleaded for **International Organizations to commit to maintaining the statistical infrastructure to produce Inter-Country Input-Output tables (ICIOs)** to create indicators on GVCs or other indicators relevant for users and policy analyses

GN was approved at the joint AEG and Committee meeting in March 2022. Final version to be posted on both the BPM6 and 2008 SNA update websites in due course.

G.9 “Payments for ‘Knowledge-based Capital’”

GN discusses two major conceptual options

- Option I: **Marketing assets** are treated as **produced non-financial assets**
- Option II: **Marketing assets** are maintained as being non-produced non-financial assets but with consistent and enhanced reporting in both manuals
 - How to record payments for the use of a marketing asset (franchise fee)? Under Services, Income, or both?
 - How should property income be recorded?

Decision:

- ✓ Supportive to the GZTT’s proposal of undertaking a **targeted testing** before deciding on the final recommendation.
- ✓ Members remained favorable to the **preferred treatment of marketing assets as produced** on conceptual grounds.
- ✓ If status quo (continue treating these assets as nonproduced) be maintained, clearer guidance on the treatment of **payments for the rights to use** marketing assets.
 - ✓ Slight preference to **treat those payments as services** (the default solution in *BPM6*, if a split is not possible). **Large support** for creating a **new subcategory** on the payment for nonproduced nonfinancial assets other than natural resources in the primary income account.
 - ✓ **Concept of rent**, and the need to distinguish between rent and services, has been discussed by other task teams during the update process.
 - ✓ **Eurostat is preparing a more general guidance note on rent.**

GN will be finalized once testing ends. To be completed by December 2022.

Way forward

- Work programme of the GZTT is largely done.
- Taskforce being established to develop a testing strategy for G.9- treatment of marketing assets as produced.
- Co-operation with the Editorial Team
- 2025 SNA and BPM7

Thank you

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