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New developments in communication, globalization and digitalization

C.4 Merchanting and Factoryless Producers; Clarifying Negative Exports in Merchanting; and Merchanting of Services: Outcome of Global Consultation

Prepared by the Current Account and Globalization Task Teams¹

Summary

The guidance note on merchanting and factoryless producers, jointly prepared by the Current Account Task Team (CATT) and the Globalization Task Team (GZTT), focuses on a range of aspects related to global production arrangements and on their recording in the national accounts and balance of payments. The guidance note was sent for global consultation with all UN member countries. This document summarizes the results of the global consultation.

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I. Introduction

1. **Responses reflect the views of both the balance of payments and the national accounts communities.** Of the 66 participating economies, about 40 percent provided a coordinated response (27 responses) for balance of payments and national accounts, 23 submitted a response for balance of payments only, and 16 for national accounts only (Figure 1). European countries had the largest participation (44 percent). The consultation ran from September 23 to October 21, 2021.

II. Conceptual issues

2. *Three main conceptual issues discussed in the guidance note are (i) disentangling the transactions related to factoryless goods producers (FGPs) in global manufacturing arrangements and proposing adequate treatments; (ii) clarifying the rationale behind negative recording of merchanting of goods; and (iii) clarifying the existing guidance on the definition and treatment of merchanting of services.*

3. **The proposals concerning the FGP arrangements received wide support.** A large majority agreed with the proposed recordings of the output of the contractor as a Good under the FGP arrangement and as a Service under a processing arrangement (Figure 3). The classification of FGPs should not distinguish between affiliated and non-affiliated enterprises (Figure 4). While a thin majority (52 percent) favored classifying the activities related to FGP as manufacturing and recording their transactions on a gross basis (Figure 2), 75 percent supported introducing supplementary component(s) under the Goods Account though evenly split between the two options² (Figure 5). There was a broad agreement on the usefulness of the decision tree (Figure 6). However, to adequately respond to the diversity of situations and to bring clarity to the process, respondents considered that it should cover a wider range of aspects.

4. **The large majority (Figure 8) agreed with the reasoning behind the compromise on the recording of negative exports in merchanting of goods** and encouraged inclusion of additional explanations in the new standards.

5. **A majority of respondents supported the proposals on the concept of “merchanting of services” (Figure 9) and found the recording of fees separately from the relevant services as appropriate (Figure 10).** The proposed treatment of *bundled services* was found conceptually acceptable by a slight majority (around 60 percent) of respondents (Figure 11) and beneficial for improving consistency of Balance of Payments Manual/System of National Accounts (BPM/SNA) with the Tourism Satellite Account (TSA). However, challenges from its practical implementation and risks of asymmetries were also noted by several respondents.

III. Current compilation practices

6. **Most respondents indicated that their institutions were unable to identify the relevant units engaged in global manufacturing arrangements and to prepare related estimates (Figure 12).** About 60 percent of respondents indicated that global manufacturing arrangements were of high or medium relevance in their economy. The remaining 40 percent described it as of low relevance for their economies (Figure 7). It was widely acknowledged that the phenomenon of globalization is gaining momentum a view equally shared by countries that have not yet developed the capacity to quantify its extent. At the same time, only a relatively small number of countries (about 14)³ are ready to engage in experimental

² Option 1 proposes one supplementary component under the Goods/General merchandise; Option 2 proposes supplementary components distributed between the General merchandise and the Net export of goods under merchanting.

³ In two cases, Colombia and Philippines, both the Central Bank and the Statistical Office volunteered.

exercises to estimate the proposed supplementary items related to FGP activities but just half of them showed interest in seeking advice on implementation (Figure 14).

7. **On practical grounds, most respondents considered the global production arrangements as complex and cited difficulties in capturing it.** Major practical challenges identified by respondents with regard to producing estimates for the FGP (Figure 13) are related to (i) difficulties in identifying the enterprises engaged in global production arrangements in the main registers and complementary data sources, including Customs records; further, the constraints in detecting the ownership of material inputs are highlighted; and (ii) the lack of capacity to develop adequate data collection instruments. With regard to trade-related intermediation services, several respondents identified weaknesses in data sources, to separate the intermediation fee from the actual service components and sometimes from goods or other transactions with affiliated companies. Other respondents noted difficulties in identifying and accessing information on global service intermediation arrangements, as well as the implicit fees charged by the digital intermediation platforms, in particular for the households sector.

8. **For bundled products, some respondents indicated that major items, such as passenger transport, accommodation, etc., for tour operators, can be separated based on information from available sources, while others found it difficult to unbundle and suggested allocating the whole amount to the main service category, usually travel.** Important implications were noted for the European countries currently following the European System of Accounts 2010 (ESA 2010), for which bundled packages are recorded as one product in national accounts as well as for the harmonized consumer price index and the household budget surveys; however, these components have to be unbundled for TSA purposes.

Annex

List of Tables and Charts

Figure 1.
Number of Respondents by Statistical Domain

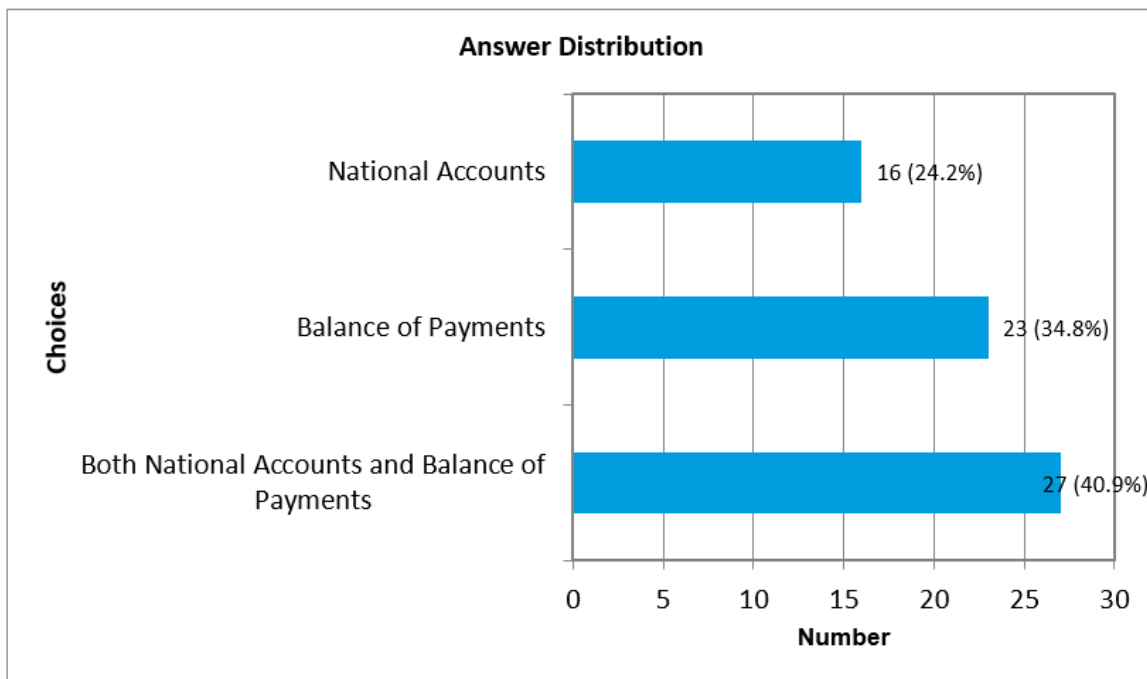
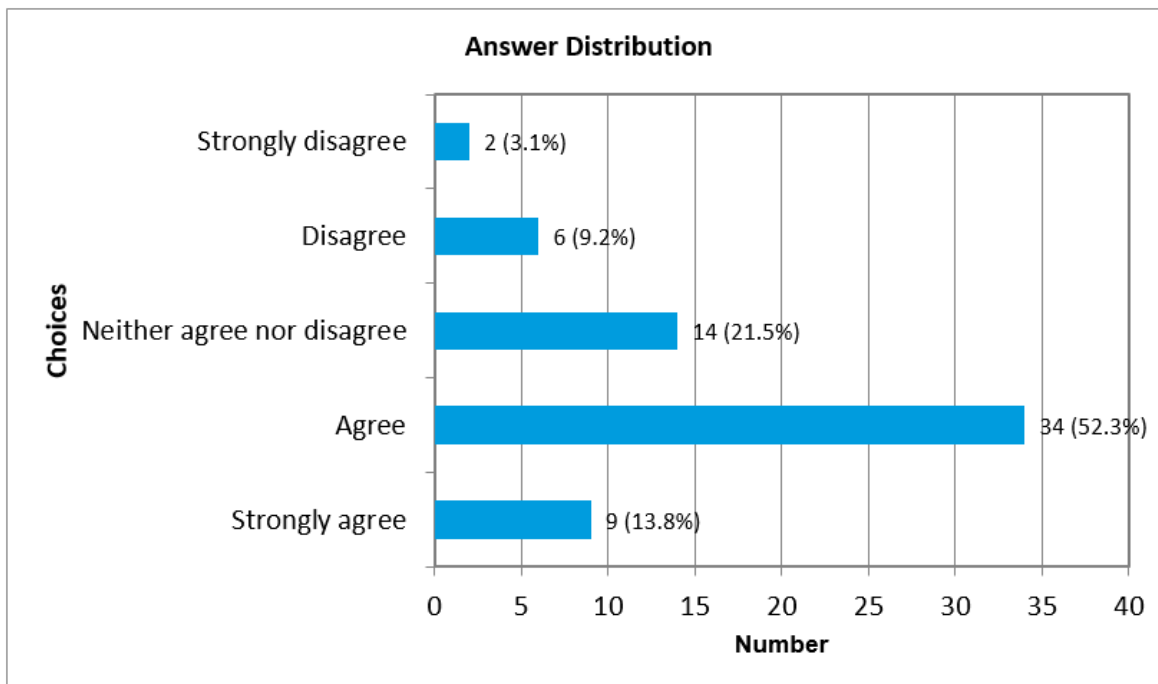


Figure 2
Views on Classifying the Activities Related to FGP as Manufacturing and Recording Their Transactions on a Gross Basis



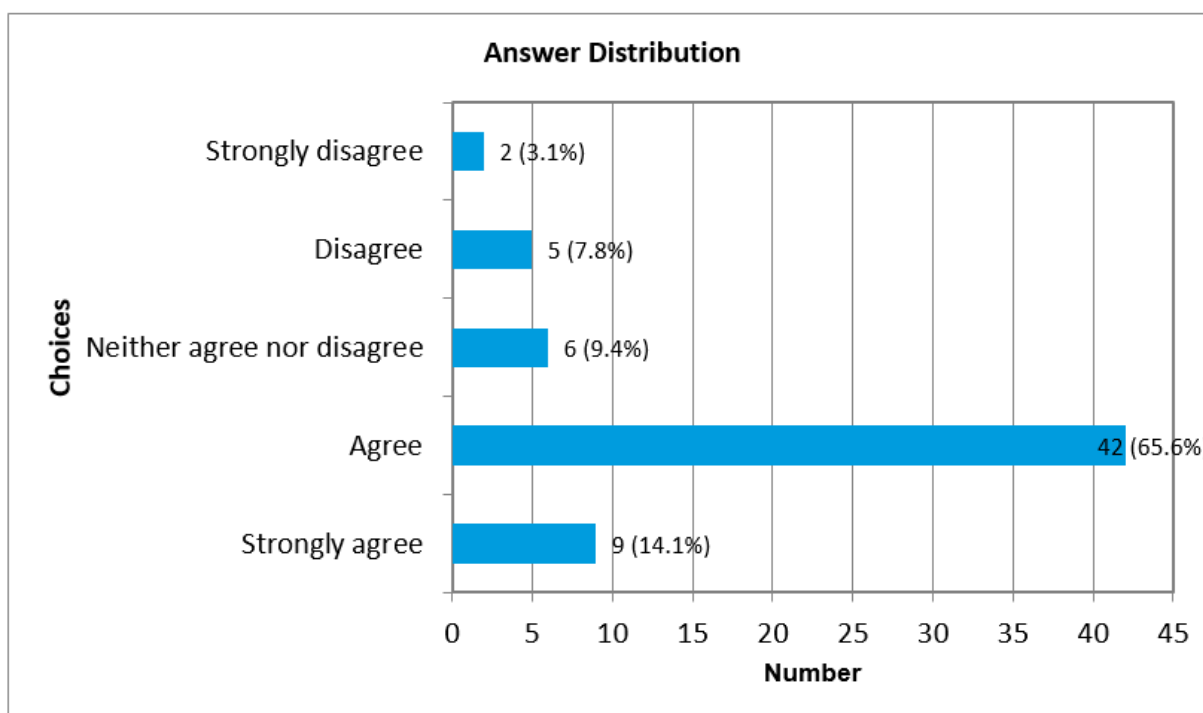
Gross recording of FGP transactions was found conceptually sound by many reporters. Main reasons cited include the profile of the activities of FGPs being closely connected to manufacturing rather than trade and their control of the manufacturing process (provision of intellectual property products (IPP), control of production processes, involvement in the final goods distribution, etc.). However, further research is needed to fully comprehend how this

will work out in practice. Those with opposing views consider that classifying FGP activities as manufacturing would result in an overestimation of local manufacturing activities when comparing the output or gross value added by sector. The provision of IPP was not considered sufficient to conclude that the principal is engaged in manufacturing activities, which are carried out by foreign contractors.

Further clarification should be brought on issues such as (i) marketing assets (e.g., trademarks) as IPP; and (ii) potential classification of special purpose entities (SPEs) as FGPs. Also, pragmatic considerations were suggested, such as: (i) question whether the user benefit by introducing a sub-item under the Goods; (ii) determining whether the focus should be on distinguishing the domestic vs. cross-border transactions or between production/manufacturing and pure trade; and (iii) potential risk that a non-homogenous treatment of FGPs could increase the asymmetries between countries.

Figure 3

Summary Views on the Proposed Recordings of the Output of the Contractor—as a Good Under the FGP Arrangement and as a Service Under a Processing Arrangement



Many responders agreed with the distinction from a conceptual perspective. However, big doubts were expressed again about the practical implementation stressing the difficulty of getting the information needed to make the distinction between the FGP, where the ownership of raw materials is by the contractor, and a processing arrangement where the ownership of raw material is by the principal (also, the share of IPP provided by the principal is often unknown). Some considered that recording the output of the FGP-contractor as a good would make more sense in the supply and use tables setting, however, whether a principal is a FGP or not seems irrelevant for the output of the contractor under both FGP and processing arrangements.

Figure 4
Views on the Proposal that Classification of FGPs Should NOT Depend on the Affiliation with the Contractor Responsible for Transforming the Goods

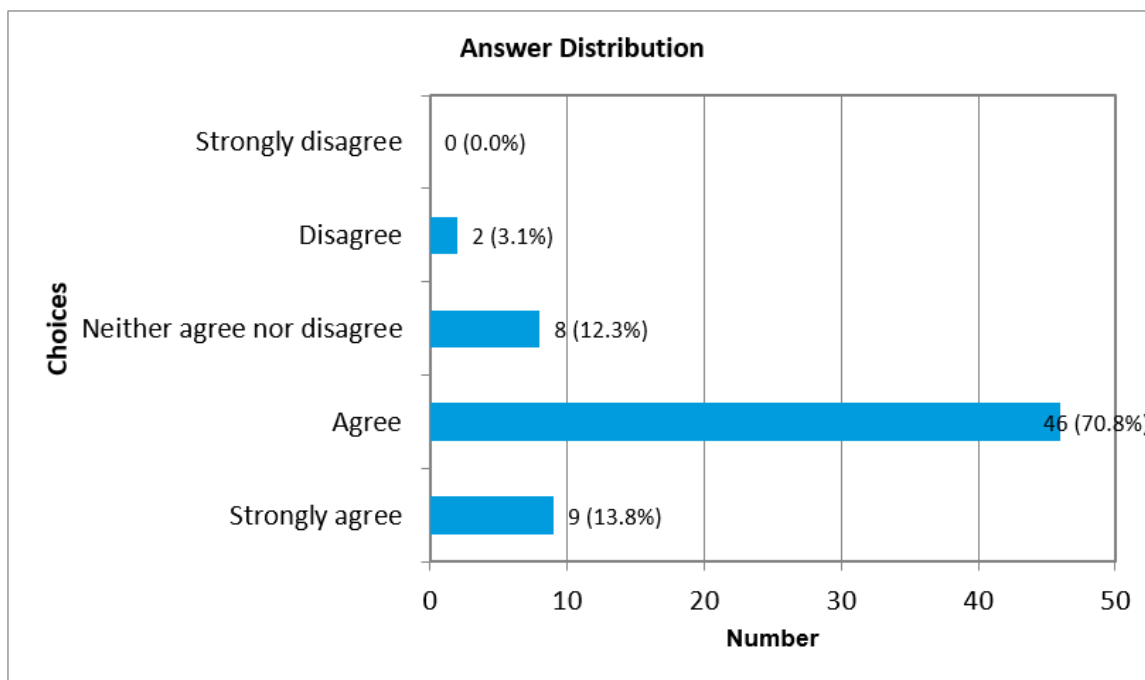


Figure 5
Preference for the Options Proposed to Introduce Supplementary Item(S) Under the BOP Standard Component of Goods

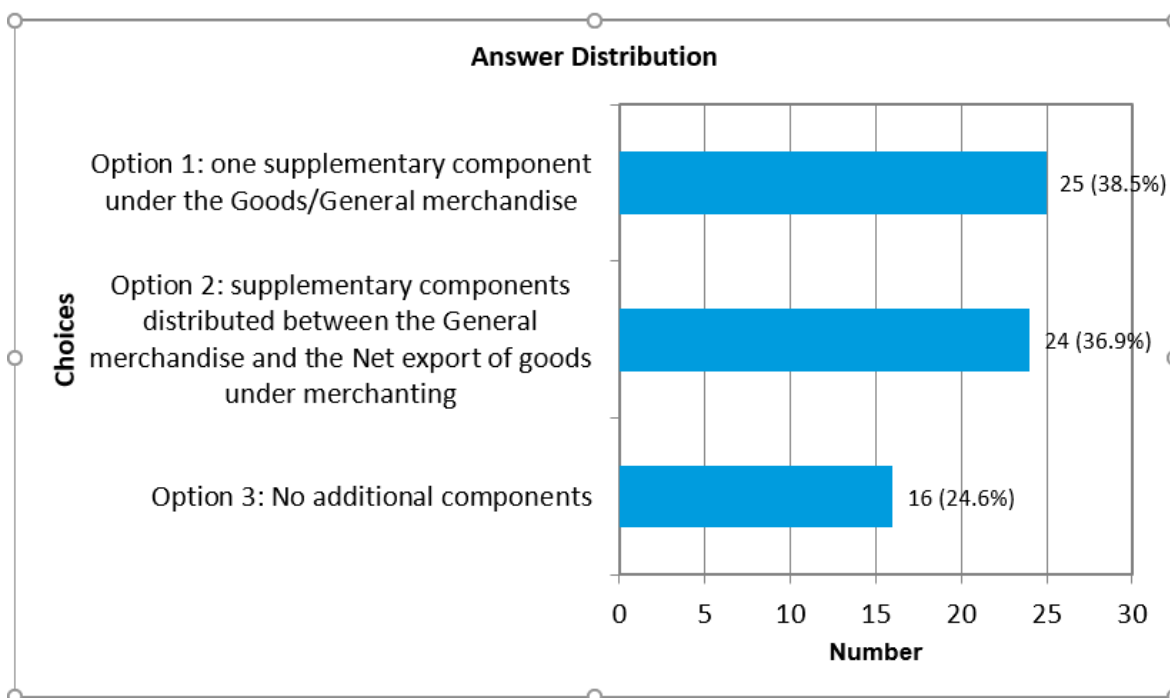


Figure 6
Views on the Usefulness of a Decision Tree

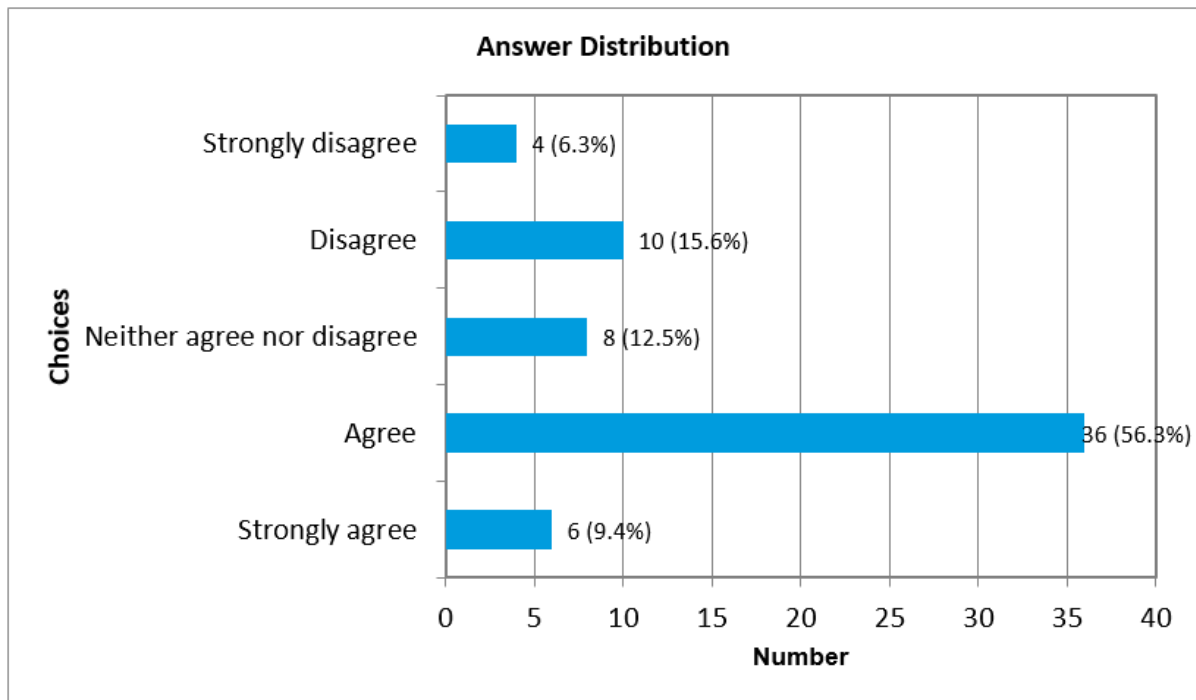


Figure 7
Views on the Relevance of the Global Manufacturing Arrangements for Countries

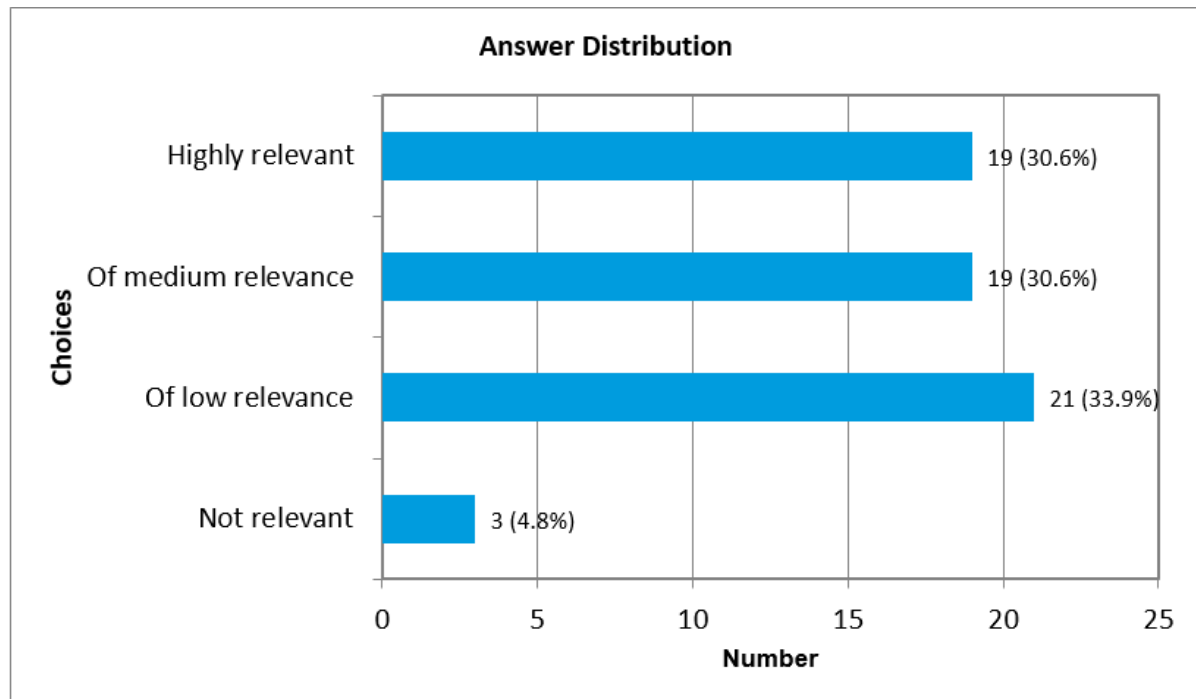


Figure 8
Support for Keeping the Status Quo with Regard to Recording of Negative Exports in Merchandising of Goods

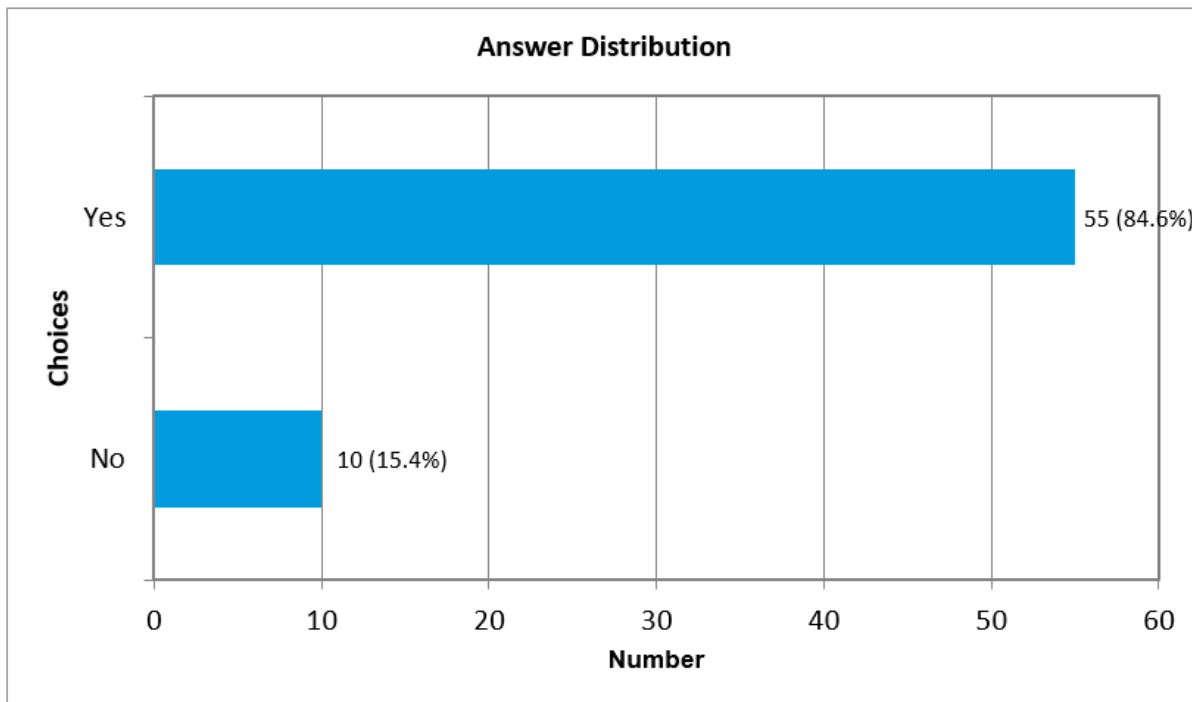


Figure 9
Views on the Team’s Conclusion that Considers the Idea of “Merchandising of Services” as Impossible

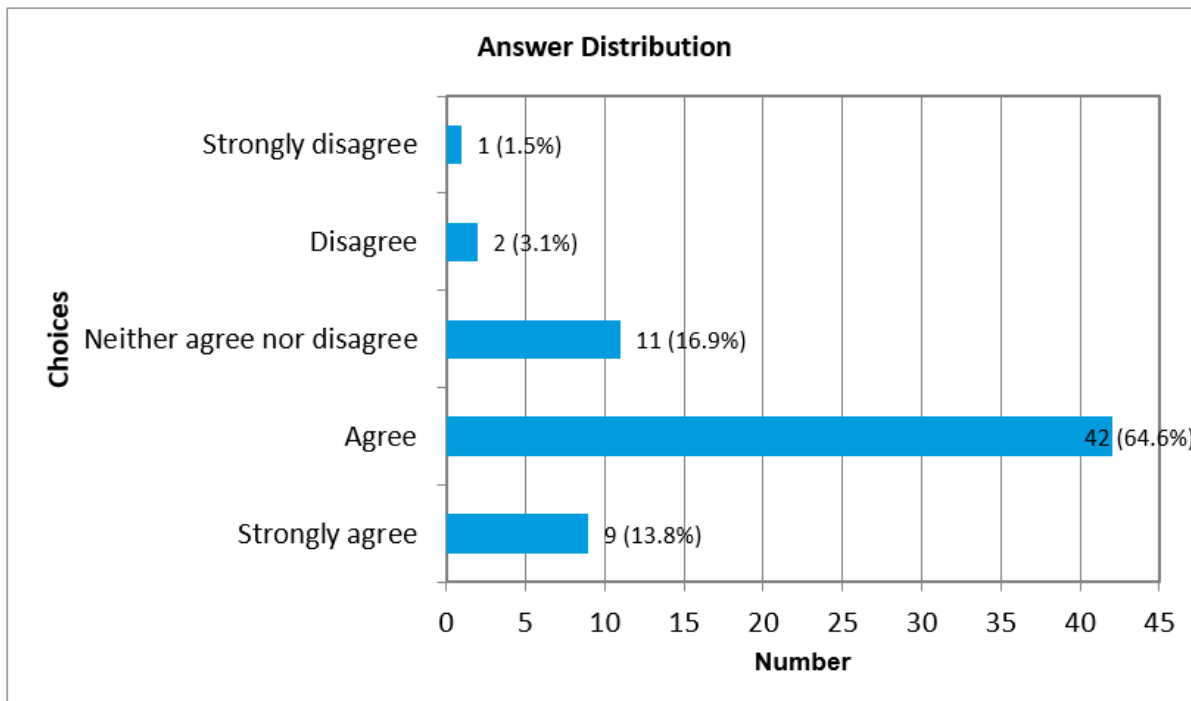


Figure 10
Support for the Proposal to Record the Intermediary (Agent)’S Fees as a Supplementary “of Which” Item Under Trade-Related Services

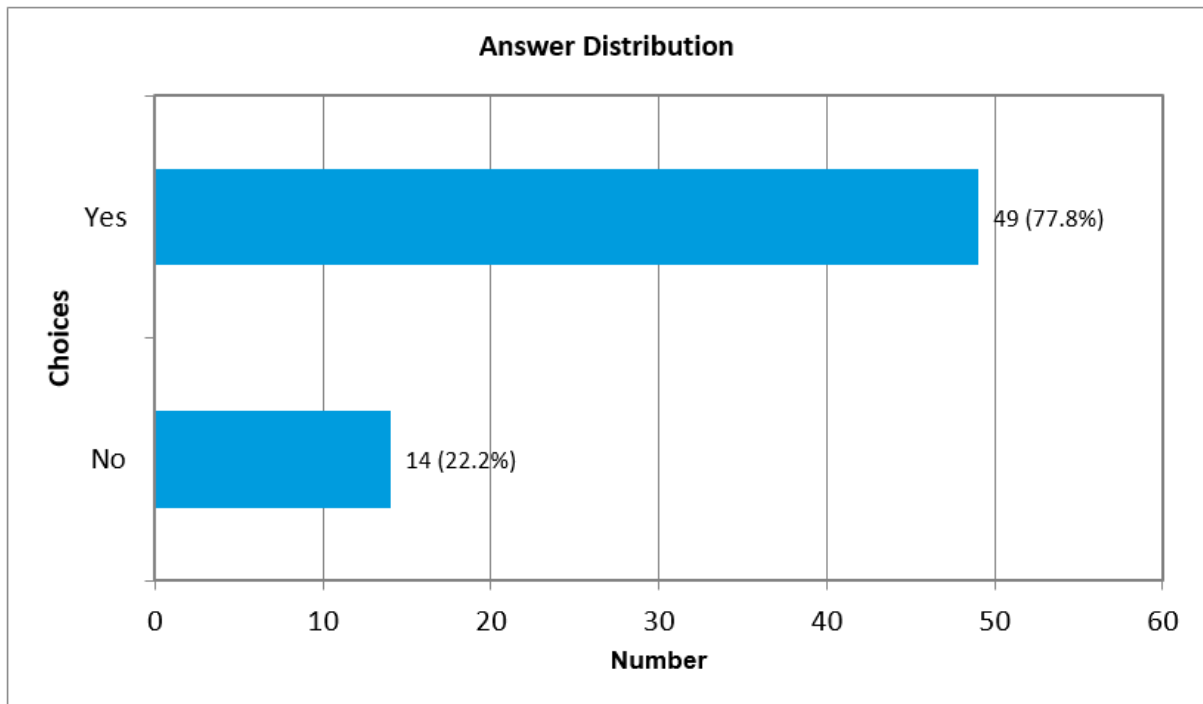


Figure 11
Views on the Proposal to NOT Record the Bundled Services (such as Tour Operators) as a New Product, but Instead to Record the Package Components Separately in the International Accounts

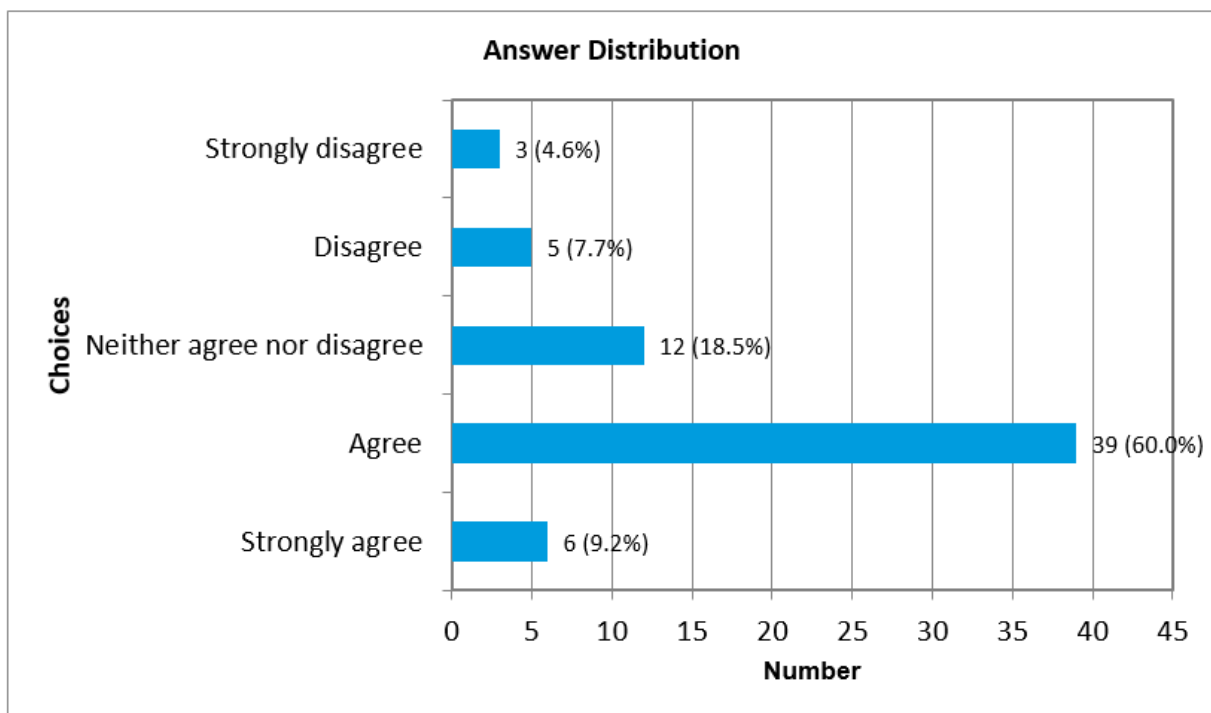


Figure 12
Practical Ability of Country Institutions to Identify the Relevant Units Engaged in Global Manufacturing Arrangements and Prepare Related Estimates

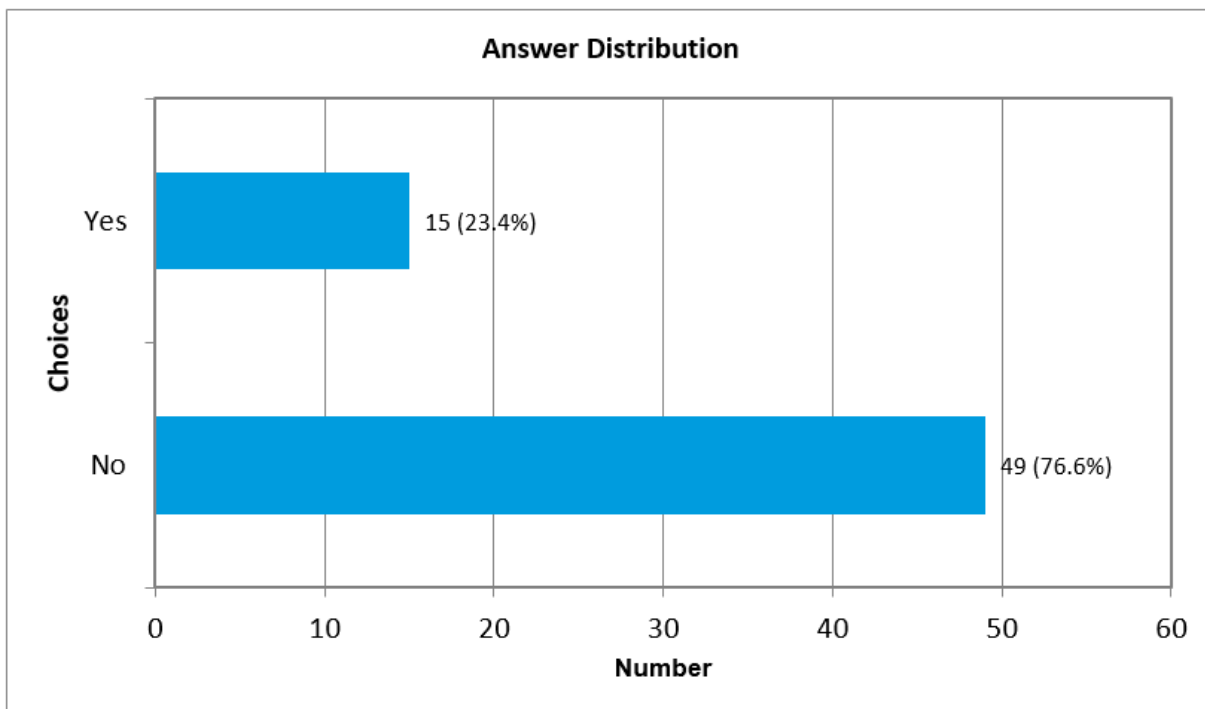


Figure 13
Potential Practical Challenges Identified by Country Institutions Regarding the Compilation of Estimates Related to Global Manufacturing Arrangements

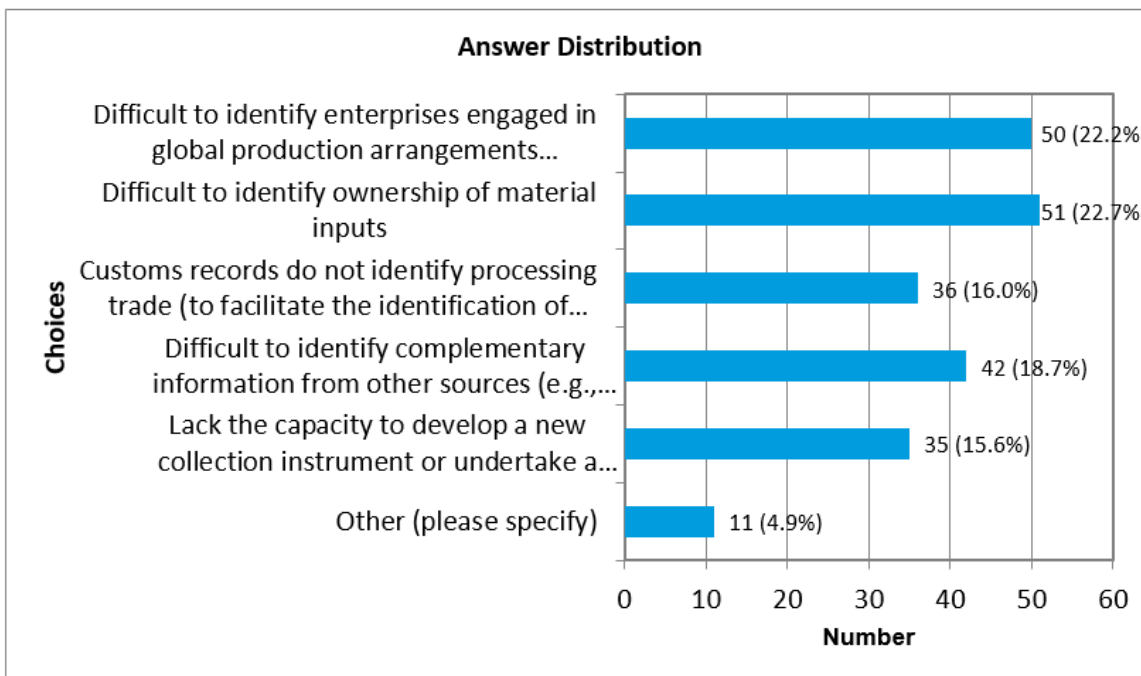
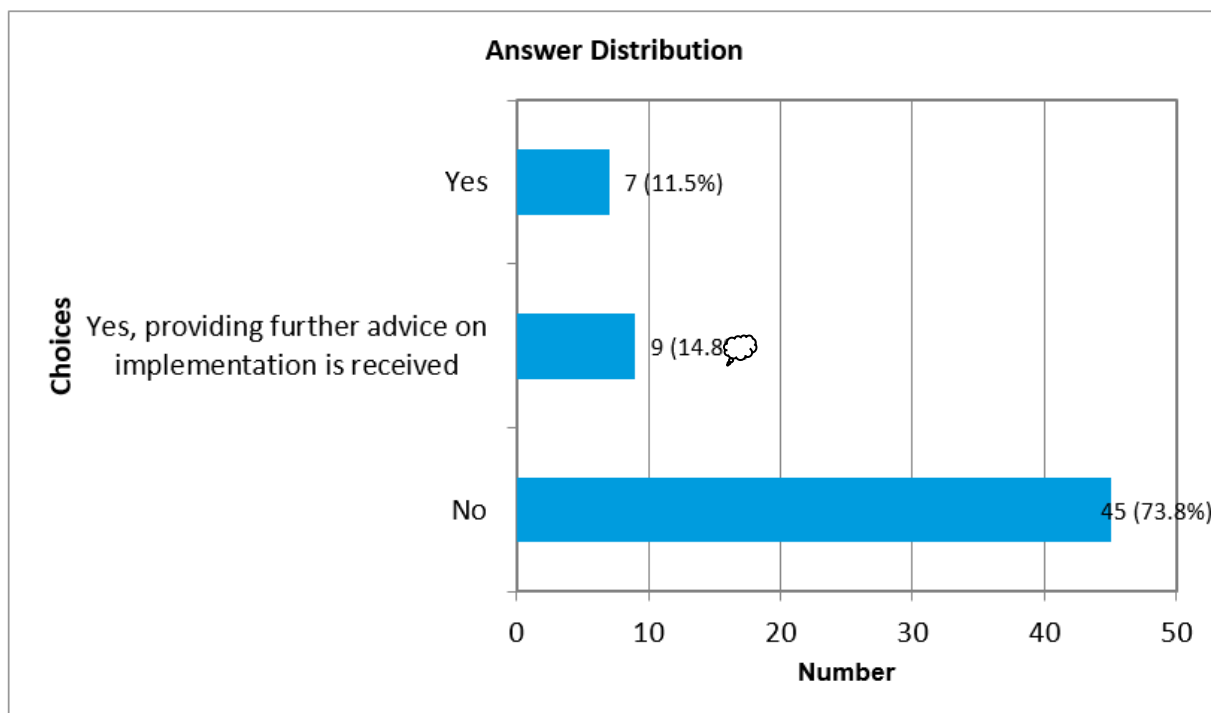


Figure 14
Level of Interest Shown by Country Institutions to Participate in an Experimental Exercise to Estimate the Proposed Supplementary Items Related to FGP Activities



Note: The nine responses in the chart above represent seven countries only as, in two cases, both institutions submitted responses.