

SNA Research Agenda: Subgroup on globalization

Co-chaired by Michael Connolly (Ireland) and Paul Roberts (Australia)
Thirteenth Meeting of the Advisory Expert Group on National Accounts
1-3 October 2019, Washington DC

Overview

- ▶ Report of the ISWGNA Task Force on SNA Research Agenda: Overview of research agenda focusing on all globalization issues
- ▶ Initial identification of whether issue will impact core/outside the core
 - ▶ Initial identification of priority
 - ▶ Current/prior relevant work undertaken on topic
- ▶ Subgroup on globalization
 - ▶ Composition of subgroup
 - ▶ Status of research issues by the subgroup
 - ▶ More in-depth look at research issues
 - ▶ Way forward & proposed timetable

Overall Globalization Research Agenda

	Issue	Category	Inside core standards		Outside of core standards	Priority	Comment
			Core	Granular or supplementary	Extensions		
1	Typology of global production arrangements	Conceptual / Methodological	x			M	Initial guidance given in UNECE Guide to Measuring Global Production
2	Factoryless goods producers	Conceptual / Methodological	x			M	Initial guidance given in UNECE Guide to Measuring Global Production 2013 & 2014 AEG meeting Classification experts presented at 2017 AEG meeting
3	Merchanting (services)	Conceptual / Methodological	x			M	Initial guidance given in UNECE Guide to Measuring Global Production
4a	Separately identifying Special Purpose Entities	Conceptual / Methodological		x		H	BOPCOM 18/03 Caribbean perspective is interesting on SPEs – these economies are not represented at BOPCOM or AEG, but may have a different view on the balance of data collection responsibilities between owning countries and host countries.
4b	SPE as separate institutional unit	Conceptual / Methodological	x			H	Deviating from the actual cash flows may be very difficult to do consistently across countries. Requires massive international exchange of individual data.
5a	Legal ownership of IPPs to SPEs	Conceptual / Methodological	x	x		H	BOPCOM 18/03 Recent work of the IMF's Task Force on SPEs put forward a proposal to collect supplementary information on SPEs for a reduced number of BOP and IIP components beyond direct investment activities. As transactions in goods would be relevant for merchanting SPEs, a separate line for net merchanting by SPEs is included. Regarding services, four distinct components of services have been included in the reporting list where SPEs can be of relevance: transport, financial services, charges for the use of intellectual property, and other business services. UNECE Guide to Measuring Global Production; AEG recommended decision tree use at 2014 AEG meeting
5b	Ownership of IPPs within MNE (without SPE)	Conceptual / Methodological	x			H	UNECE Guide to Measuring Global Production; AEG recommended decision tree use at 2014 AEG meeting Work has been done by various people; some of which was presented at the 2018 AEG meeting eBOPS and data on affiliated/unaffiliated transactions could be of use.
5c	Charges for the use of IPPs	Conceptual / Methodological	x			H	BOPCOM 18/03 Recent work of the IMF's Task Force on SPEs put forward a proposal to collect supplementary information on SPEs. If there is a change to the recording of economic ownership of IPPs then charges for the use may need to be rerouted.
5d	IPP ownership and factoryless goods producers	Conceptual / Methodological	x			H	UNECE Guide to Measuring Global Production
6	Valuation of goods imports and exports (i.e., CIF/FOB recording)	Conceptual / Methodological	x			H	Paper by Anne Harrison (SNA editor) at 2012 BOPCOM 2013 AEG meeting noted that SNA and BPM are consistent, recommended FOB recording. Stated that SNA does not fully reconcile FOB valuation with basic prices. Statistics NL presentation at 2017 AEG; recommended an assessment of country experiences in CIF/FOB recording

	Issue	Category	Inside core standards		Outside of core standards	Priority	Comment
			Core	Granular or supplementary	Extensions		
7	Price and volume measurement related to globalization	Measurement	x			M	
8	New data sources needed to measure globalization	Measurement	x			M	Perhaps this should be deleted from a paper that identifies a future SNA research agenda as much of this is how to implement 2008 SNA. Is there really any additional "research" needed?
9	Goods and services account by (trading) enterprise characteristics	Measurement		x		H	This item could potentially be combined with item 12.
10	Nationality concept / Extension of IIP on a nationality basis	Conceptual / Methodological			x	H	BOP issue
11	New methods to measure global production	Measurement				H	UNECE Guide to Measuring Global Production; Much advice has been given at UNECE/Eurostat/OECD Group of Experts on National Accounts meetings.
12	Global value chains and trade in value added	Measurement		x		H	<p>Much work in this area: BOPCOM's Working Group on Balance of Payments Statistics Relevant for GVCs (WGGVC) led by the IMF and the OECD. The Working Group identified components in the current BOP framework that are relevant for developing GVC indicators (BOPCOM-18/04) and additional work is on-going to examine how to better identify the role of MNEs in current account transactions.</p> <p>OECD-WTO trade in value added OECD extended SUTs Expert Group on International Trade and Globalization indicators Handbook on Global Value Chains</p>

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Task Force on the SNA Research Agenda: Subgroup on Globalization

Subgroup on globalization: Membership

- ▶ 24 members (countries and international organizations) + IMF Secretariat
- ▶ Mix of national accountants and balance of payments compilers
- ▶ Regional representation (Asia & Pacific: 4, Europe: 6, Middle East & Central Asia: 1, Sub-Saharan Africa: 1, representing 21 African countries, Western Hemisphere: 4)

Current research issues of the subgroup

- ▶ AEG identified the following issues as a first priority:
 - ▶ CIF-FOB valuation of imports/exports
 - ▶ Economic ownership and recording of intellectual property products
 - ▶ Treatment of multinational enterprises (MNEs) and special purpose entities
 - ▶ Intra-MNE flows
 - ▶ Identifying economic presence and residency
- ▶ CIF/FOB valuation of imports/exports is a relatively self contained issue and can be addressed separately
- ▶ The other issues of the subgroup are intertwined and should be considered holistically

Organization of work of the subgroup

- ▶ Co-chairs asked 4 members of the subgroup to write brief issue papers
 - ▶ CIF/FOB valuation of imports/exports: Mr. Satoru Hagino (Fukuyama University, Japan)
 - ▶ Intra-MNE flows: Mr. Dylan Rassier (U.S. Bureau of Economic Analysis)
 - ▶ Treatment of MNEs and SPEs and identifying economic presence: Ms. Ann Lisbet Brathaug (Statistics Norway)
 - ▶ Economic ownership and recording of IPPs: Mr. Paul Roberts (Australian Bureau of Statistics)
- ▶ Co-chairs and Secretariat are reviewing the papers.
 - ▶ Strive to make issue papers consistent and resolve any divergent/conflicting points with/between authors.
 - ▶ If differences cannot be resolved then the divergent views will be presented to the subgroup for discussion.

Status of work of the subgroup

- ▶ Valuation of imports and exports issue paper circulated to subgroup and AEG simultaneously. Feedback from subgroup requested by 11 October
- ▶ Conference call with subgroup on consultation process: September 27
- ▶ Preliminary draft issue notes of remaining topics have been received by co-chairs and secretariat
- ▶ Consultation for the remaining issues still need to occur

Consultation Guidance

- ▶ Members of subgroup are requested to review the issue note and to reflect on the following:
 - ▶ Substance of the issue note
 - ▶ Opinion on the options under consideration
 - ▶ Related data sources and country/regional practices
- ▶ Process may require updating the issue paper, including potentially bringing in additional authors, identifying any additional issues for research.
- ▶ Once general agreement is reached on recommended approach a draft guidance note will be produced reflecting the discussion, perspective and conclusion of the subgroup.

Brief overview of issues

Valuation of imports & exports of goods

Valuation of imports/exports: Background (1)

- ▶ Anne Harrison, editor 2008 SNA prepared a document for the 2012 Balance of Payments Committee (BOPCOM) discussing the discrepancy in the valuation of imports and exports between the 2008 SNA and BPM6
 - ▶ Discrepancy concerns how the treatment of cost of transporting goods (both freight and insurance) from the supplier to the purchaser is recorded
 - ▶ BPM6 valuation principle for **general merchandise** trade is the market value of goods at the **point of uniform valuation: the customs frontier of the economy from which goods are exported (free-on-board, FOB)** (BPM6 10.30)
 - ▶ SNA also recommends that imports and exports of goods be valued at FOB values (SNA 3.149)

Valuation of imports/exports: Background (2)

- ▶ SNA also recommends to use observed transaction prices at the point when the change of ownership occurs (basic price).
 - ▶ It allows for a variety of recording of transportation charges: the cost of delivery of goods between supplier and purchaser may be integrated within the basic price of the good or shown separately, depending whether the supplier or purchaser is responsible for the delivery cost (SNA 14.54)
 - ▶ Rationale behind these different recordings is that the point when change of ownership occurs is different under the different scenarios.
- ▶ Discrepancy was introduced during the 1993 SNA update. The change was not incorporated into BPM5 or BPM6
 - ▶ Before the 1993 SNA, the cost of transporting goods from a supplier to a purchaser was always separately identified and formed part of the difference between the basic price and purchaser's price

Valuation of imports/exports: Background (3)

- ▶ The issue was brought to the 2013 AEG meeting. Outcomes were:
 - ▶ Noted both 2008 SNA and BPM6 recommend recording the imports & exports of goods at FOB values
 - ▶ 2008 SNA does not fully reconcile the FOB valuation principle with the principle of output valuation at basic prices
 - ▶ Recommended longer term, the agreed change of ownership principle for cross-border transactions should be applied consistently across the SNA, BPM, and International Merchandise Trade Statistics (IMTS)
- ▶ Issue appeared again
 - ▶ 2017 AEG (& 2018 OECD WPNA): Haan and Hiemstra discussed both practical and conceptual reasons why transaction prices should be the preferred recording.
 - ▶ Outcome from 2017 AEG: Recognized that **the use of transaction prices for exports and imports of goods is not consistent with the current SNA recommendations**, but **recommended an assessment of country experiences in CIF/FOB recording**
 - ▶ 2018 OECD WPTGS: Walter also brought the issue to BOP compilers

Review of the options for recording (1)

- ▶ SNA could change its recommendation on the treatment of domestic transportation back to what it was before the 1993 revision.
 - ▶ Transportation is always treated as a service and never integrated with the value of the good
 - ▶ Not consistent with the observed transaction price when change of ownership occurs
- ▶ The SNA (supply and use tables) could be changed to be strictly consistent with BPM6 for merchandise trade transactions with nonresidents.
 - ▶ Consistent with BPM treatment; inconsistency with domestic transactions in goods; Not consistent with the observed transaction price when change of ownership occurs

Review of the options for recording (2)

- ▶ BPM (& IMTS) and SNA can stay as they are.
 - ▶ A supplementary table showing how imports CIF are converted to imports FOB.
 - ▶ Research into improving the CIF/FOB adjustment could also be an option.
- ▶ Amend BPM & SNA guidelines and adopt valuation to be observed transaction prices at the point when the change of ownership occurs for exports & imports of goods
 - ▶ SNA would also need to be updated in parts where it says the SNA follows FOB valuation for imports and exports (e.g. SNA 3.149)
 - ▶ Consistent treatment with domestic transactions in goods

Any initial views of options under consideration? Any options missing?

SUT exports & imports: Source data

- ▶ In most countries, most information on imports and exports of goods (e.g., general merchandise trade) will come from customs declarations (SNA 14.69)
- ▶ Within customs declarations, imports are usually valued CIF at the point of entry into the importing economy. Exports are valued FOB at the point of exit from the exporter's country. (SNA 14.70)
 - ▶ **How feasible is it to deviate from the source data?**
- ▶ Imports of goods are to be recorded in the supply table at basic prices. SNA states that there is no universally appropriate valuation for imports of goods at basic prices (SNA 14.77). Paragraphs 14.77 a - d make recommendations
 - ▶ **What are country practices for the recording of transport margins on imports?**
- ▶ 2019 BOPCOM paper investigates the use of invoice values. The outcomes of the BOPCOM meeting as well as the paper will be shared with the subgroup in November 2019.

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Treatment of MNEs

Economic Ownership, IPPs, economic presence, SPEs, and intra-MNE flows

Treatment of MNEs

- ▶ Economic globalization has created opportunities for businesses to organize their production chains, financial and profit maximizing strategies on a world-wide scale
- ▶ Increased complexity of compiling economic statistics on country-by-country basis
 - ▶ As a result measurement of key economic indicators, including Gross Domestic Product and Gross National Income, has been affected
- ▶ Challenges include many aspects of intra-MNE flows, implementation of the principle of economic ownership, especially in the relation to intellectual property products, economic presence, residency, institutional units, SPEs
 - ▶ Issues that are identified as high priority by the AEG

Intra-MNE flows

- ▶ Treatment of flows within MNEs imposes three measurement challenges for the SNA
 - ▶ Transactions within MNEs are valued using transfer pricing methods that may fail to reflect market outcomes
 - ▶ Transactions and other flows within MNEs may “appear” when MNEs are with SPEs such as financing companies or intellectual property licensing companies
 - ▶ Development and use of intellectual property products within MNEs yields productive assets that are highly mobile without any discernable location of economic presence

Special Purpose Entities (SPEs)

- ▶ Use of SPE structures has increased in the context of multifaceted and flexible MNE structures to obtain benefits from different legal and tax regimes
- ▶ Originally SPEs were mostly set-up by financial institutions
- ▶ Evolved to include nonfinancial specialized entities established by MNEs to
 - ▶ Manage intellectual property rights, R&D, trade and other activities
 - ▶ Allows MNEs group-wide financial and profit maximization strategy
- ▶ Much discussion and guidance on this issue
 - ▶ 2013 AEG meeting: Report of ECB-Eurostat-OECD Task Force on Head offices, Holding companies, and SPEs
 - ▶ 2018 BOPCOM: Task Force on Special Purpose Entities Final Report

Economic Ownership & Recording of Intellectual property products

- ▶ Focus is on intellectual property products within the SNA asset boundary (software, databases, R&D, entertainment, literary and artistic originals, mineral exploration and evaluation)
- ▶ Recap of IPP characteristics
 - ▶ Intangible so no discernable location, non-rival, economic ownership and use are not easily observed, legal ownership can be placed anywhere amongst the MNE group
- ▶ Much discussion and guidance on this issue
 - ▶ 2018 AEG Meeting (as well as other AEG meetings)
 - ▶ OECD Report of Committee on Statistics and Statistical Policy (CSSP) Reflection Group
 - ▶ Eurostat-OECD Task Force on Land and other non-financial Assets: IPP
 - ▶ DeHaan and Haynes; Moulton and Van de Ven CRIW papers
- ▶ **Emerging discussion: Treatment of intra-MNE flows of IPP patents and the nature of the transaction. Transfer of previously produced IPP.**
 - ▶ **In this scenario is it more like a collateralized financial asset rather than a capital asset? How can we view these flows?**

Better understanding of MNEs: Brief literature review of options considered

- ▶ A number of options have been proposed. Options can be grouped into four categories:
 1. Emphasize and utilize existing macroeconomic indicators in the current framework
 2. Incorporate additional details (granular) data into the current framework
 3. Change the character of intra-MNE flows
 4. Engage in international cooperation and data exchange
- ▶ The first two categories would not require a change in the core SNA framework
- ▶ The latter two categories would require changes in both the core SNA framework and in current practice

Way forward

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Way forward

- ▶ Challenge is to move beyond the “recommendation for further research”
- ▶ Also need to consider what can countries implement
 - ▶ Statistical compilation feasibility
 - ▶ Data source availability and accessibility
 - ▶ Objectivity
- ▶ Subgroup is in the process of reviewing the existing materials and the various options
- ▶ Globalization has large impacts across different areas of statistics
 - ▶ Coordination with Balance of Payments Committee (BOPCOM) is critical to maintain consistency between SNA and BPM

Timeline for valuation of imports and exports

- ▶ Consultation on valuation of imports and exports
 - ▶ Feedback of subgroup: due by 11 Oct 2019
 - ▶ Compile results of consultation and circulate to subgroup: Nov 2019
 - ▶ Preliminary draft guidance note to subgroup: Mar 2020
 - ▶ Consult other groups as needed (e.g. BOPCOM, merchandise trade statistics)

Timeline for remaining issues

- ▶ Other issues for consultation
 - ▶ Co-chairs and Secretariat assessing best way to proceed. Tentative proposal
 - ▶ Issue note(s) sent to subgroup: Q4 2019
 - ▶ Feedback of subgroup: Q1 2020
 - ▶ Compile results of consultation and circulate to subgroup: Q1 2020
 - ▶ Preliminary draft guidance note(s) second half of 2020
- ▶ Consult other groups as needed (e.g. BOPCOM)

Questions for AEG

- ▶ **Valuation of imports and exports**
 - ▶ Any initial views of options under consideration? Any options missing?
 - ▶ How feasible is it to deviate from the source data?
 - ▶ What are country practices for the recording of transport margins on imports?
- ▶ **Other issues**
 - ▶ Any high priority issues that are missing that the subgroup should consider?

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Annex:
Review of globalization issues discussed
at AEG Meetings 2013 - 2018

Annex. Globalization Issues at the AEG meetings 2013-2018 (1)

- ▶ 2018 AEG Meeting
 - ▶ Economic ownership and intellectual property products
 - ▶ Globalization-related granularity in the institutional sector accounts
 - ▶ Data exchange, sharing and Large Complex Units
 - ▶ Report of the BOPCOM Taskforce on SPEs
 - ▶ GVC satellite account
 - ▶ Extended Supply and Use Table and Trade in Value Added
 - ▶ BOP priority components for GVCs

Annex. Globalization Issues at the AEG meetings 2013-2018 (2)

▶ 2017 AEG Meeting

- ▶ Work of the UN Expert Group on International Trade and Economic Globalization
- ▶ Progress on the ECE Task Force on data exchange and sharing
- ▶ Classification of Factoryless good producers
- ▶ De-globalized GDP by using modified GNI and cross-border inter affiliate flows of Intellectual Property and the consequences for the SNA framework
- ▶ Technological interventions in financial services

▶ 2016 AEG Meeting

- ▶ Guidance on Measuring Global Production
- ▶ Measurement Framework for International Trade and Economic Globalization
- ▶ Report of the First Meeting of the Expert Group on International Trade and Economic Globalization Statistics

Annex. Globalization Issues at the AEG meetings 2013-2018 (3)

▶ 2014 AEG Meeting

- ▶ Global Production - Economic ownership of Intellectual Property Products (IPPs) by SPEs
- ▶ Treatment of royalty and licensing SPEs in Dutch National Accounts
- ▶ Global production - Factoryless goods producers

▶ 2013 AEG Meeting

- ▶ Institutional sub-sectors and the delineation of head offices, holding companies and special purpose entities (SPEs)
- ▶ Global Production (Factoryless Goods Producers)
- ▶ The treatment of freight and insurance in the 2008 SNA
- ▶ Trade in Value Added

Thank you for your attention!