



STATISTICS

**INTER SECRETARIAT
WORKING GROUP ON
NATIONAL ACCOUNTS**

A complex network graph visualization with nodes and edges, overlaid on a background of colored dots (green, yellow, orange, red) that form a gradient across the width of the slide.

**C.4/G.6 Merchanting and
Factoryless Producers; Clarifying
Negative Exports in Merchanting;
Merchanting of Services
(BOPCOM 21/04 and SNA/M3.21/04)**

Joint (Virtual) Thirty-Seventh Meeting of the IMF Committee on Balance of Payments Statistics and Seventeenth Meeting of the Advisory Expert Group on National Accounts

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Outline

- **Background**
- **A. Goods Traded Within A Global Manufacturing Arrangement and Factoryless Goods Producers (FGPs)**
- **B. Clarifying Negative Exports in Merchanting**
- **C. Merchanting of Services**
- **Outcomes of the Global Consultation**

A word of *Thank you to:*

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Background

- **Globalization:** not a new phenomenon, but was not given prominence in **2008 SNA** or **BPM6**
- More efforts deployed recently to understanding the nature of transactions related to global production (“*Globalization Guide*”, “*Guide to Measuring Global Production*“ (**GMGP**))
- This **Guidance Note (GN)** was drafted jointly by the CATT and GZTT, and focuses on:
 - (A) disentangling the transactions related to global manufacturing arrangements and **factoryless goods producers (FGPs)**;
 - (B) clarifications of the rationale behind **negative recording of merchanting** (i.e., recording of transactions exclusively on the exports side in the economy of the merchant);
 - (C) clarifying existing guidance on the definition and treatment of “**merchanting of services**”.
- The drafting team drew on the work undertaken by previous expert groups and the aforementioned methodological guides to provide clarifications to concepts and treatment of global production in the new set of manuals.

A. Goods Traded Within a Global Manufacturing Arrangement and Factoryless Goods Producers (FGPs) – Background

- **GMGP** discusses 3 types of arrangements related to goods: (i) processing type arrangements (manufacturing services), (ii) merchanting type of arrangements (wholesale/retailers), and (iii) FGP arrangements.
- **BPM6** or **2008 SNA** adequately address the first two arrangements but FGPs need more clarification
 - While *BPM6* does not explicitly address FGPs, the **GMGP** interprets “*the merchant who is the organizer of a global manufacturing process*” as the current (BPM6) guidance => implies merchanting transactions (trader).
- However, FGPs are not merchants!
 - ✓ They do not buy and resell goods.
 - ✓ They supply crucial IP capital and control the production process.
 - ✓ They control access and delivery of the final good to customers.
- By implication, the activity of an FGP, who generally only provides IPP but not material inputs, should be treated as a **manufacturer** (like a principal of a processing arrangement). 2013 AEG decision agreed!
- However, current ISIC guidance on the classification of the Principal is **based on the ownership of input materials**. => implies ISIC classifies FGPs in wholesale/retail trade.
 - Technical subgroup (TSG) of ISIC (2019) recommended no changes in current guidance because no firm recommendations for improvements were made and identification was difficult.
 - However, TSG recommended to clarify the current treatment applied only to cases where the contractor is a non-affiliate.

A. Goods Traded Within a Global Manufacturing Arrangement and Factoryless Goods Producers (FGPs) – Proposals

- Treat FGPs as **producers of goods**, record output **gross** and consider expenses paid to the contractor as an input to its production.
 - Consequence: consistent treatment of all global manufacturing arrangements.
- But what is the output of the contractor? **Good or Service?**
 - **Good**, when the contractor owns the material inputs during transformation, but the IPP and the management of the production process are provided by the principal (= FGP type arrangement).
 - **Service**, when (some of) the material inputs are owned by the principal along with the IPP (= processing arrangement).
- The industrial classification of FGPs should **not depend on the affiliation** with the contractor responsible for transforming the goods.
- BOP standard component of goods is **adjusted in the country of the principal** to cover the transactions related to goods traded as part of a global manufacturing arrangement (e.g., both processing and FGP arrangements) as a **distinct item(s)**. **Two options** are put for decision:

A. Goods Traded Within a Global Manufacturing Arrangement and Factoryless Goods Producers (FGPs) – Proposals

Option 1

1.A.a Goods (P61/P71)

1.A.a.1 General merchandise on a BOP basis

Of which: 1.A.a.1.1 Re-exports

Of which: 1.A.a.1.2 Goods traded within a global manufacturing arrangement

1.A.a.2 Net exports of goods under Merchanting

1.A.a.2.1 Goods acquired under merchanting (negative credits)

1.A.a.2.2 Goods sold under merchanting

1.A.a.3 Nonmonetary gold

Option 2

1.A.a Goods (P61/P71)

1.A.a.1 General merchandise on a BOP basis

Of which: 1.A.a.1.1 Re-exports

Of which: 1.A.a.1.2 Goods traded within a global manufacturing arrangement

1.A.a.2 Net exports of goods under Merchanting

1.A.a.2.1 Goods acquired under merchanting (negative credits)

Of which: 1.A.a.2.1.1 Input goods acquired from the third parties by the principal within a global manufacturing arrangement

1.A.a.2.2 Goods sold under merchanting

Of which: 1.A.a.2.2.1 Input goods sold to the contractor within a global manufacturing arrangement

1.A.a.3 Nonmonetary gold

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- C. Merchanting of Services
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B. Clarifying Negative Exports in Merchancing

- The reason for treating purchases of goods under merchancing as negative exports (rather than an import) is not readily explained. More clarifications were requested by compilers on the reasoning of the current treatment.
 - ▶ *BPM6* refers it in paragraphs 10.44 (a) and 10.45 but without giving the rationale.
- The research of the drafting team made clear that not a single explanation was the reason for the current treatment, but a number of considerations. They are summarized best in the following citation of the AEG 2006:
 - ▶ *“There was considerable discussion ... among AEG members. The outcome was a compromise among those that were concerned about the implications of gross reporting for the trade data, those concerned about the change of ownership principle and those that saw a service being provided”*.

Proposal:

No changes to the current *BPM6* treatment are proposed, but an explanation should be included in the new standards.

C. Merchanting of Services

- Merchanting of services is mentioned in **BPM6** paragraph 10.160 in the context of subcontracting but no clear definition of subcontracting is provided.
- More clarity comes from the **ISIC Rev.4.** where “*Outsourcing*” is used as a synonym of subcontracting.

Three major scenarios of arrangements are identified:

1. **Full outsourcing:** where the principal completely sub-contracts the production process/service delivery
2. **Partial outsourcing:** where only a part of the production process is subcontracted
3. **Bundled products:** where several parts are subcontracted and bundled by the principal before selling them to the consumer

C. Merchanting of Services – Full outsourcing

This case comes closest to the idea of “*merchanting of services*”

- **Crucial question:** Can the economic relation between counterparts be seen identical in case of outsourcing and merchanting of services (would justify a common treatment)?
 - ▶ Answer: No! Subcontracting = bilateral relation (principal and contractor)
Merchanting = trilateral relation (producer, intermediary, and consumer)
- Equally **important**, change of economic ownership principle cannot be applied to services!

The service is always directly delivered from the producer to the consumer

Digital Intermediation Platforms: example of transactions in which an intermediary arranges the supply of a service without being engaged in the actual provision of the service

Proposal:

- Record the fee, either charged explicitly or implicitly by the intermediary against the consumer/producer, under **trade-related services** as a *supplementary “of which”* item.
Justification: the intermediary neither produces, nor consumes the service.

C. Merchanting of Services – Partial Outsourcing

- Only part of the production process is subcontracted, or, more generally, the principal maintains control over the production process (e.g., by ensuring its quality) and keeps a relationship with the client.

Proposal:

- **Record the transactions in the relevant service category (gross).**
- Under such conditions the principal cannot be considered to act as an intermediary, and, therefore, the purchase of outsourced services from the contractor has to be recorded as an intermediate consumption in the production process.

C. Merchanting of Services – Bundled Products

- Some of the companies involved in the intermediation of services not only intermediate a single service but also bundle several services (e.g., **tour operators**)
 - Is the activity of the tour operator just assembling different services or does it transform the acquired services and sell them as a new product to the consumer?

Conceptually, **views are different** in:

- **2010 ESA**'s position (§ 3.61 and 3.62) is that *the tour operator creates a new product*
 - But services acquired by the tour operator (transportation etc.) cannot be considered to be consumed by it when “producing” the activity (tour). This would be essential when considering that it transforms these services into a new product.

On the other hand...

- **2008 SNA** and **BPM6**: recommend unbundling two or more different transactions

C. Merchanting of Services – Bundled Products (continued)

- **International Recommendations for Tourism Statistics 2008** also take a clear view (para 6.62):
All components of a package tour, including the value of the service of the tour operator and of the travel agency, are considered as directly purchased by visitors”
- **Tourism Satellite Account (TSA): Recommended Methodological Framework 2008 (TSA)** echo this view (paragraph 3.22).
- **Central Product Classification (CPC)** (version 2.1) in subclass 85540 “Tour Operator Services” can be interpreted that only “arranging, assembling, and marketing services” are assigned to this subclass and not transportation, accommodation, etc.

Proposal:

This GN recommends that the services that are combined in a package, such as in the tour operators, **should NOT be recorded as a new product** in the international accounts (as recommended by the *ESA 2010*) but instead to record the package components separately in the international accounts.

- one component that reflects the arrangement service of the tour operator and
- the other components, such as transportation, which are produced by the airline and consumed by the traveler at a later stage

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Outcome of the Global Consultation

- Proposals concerning the ***FGP arrangements*** received wide support
 - slight majority (65 percent) for the classification of FGP activities as manufacturing and recording related transactions on a gross basis;
 - large majority (80 percent) for the recordings of the output of the contractor – as a *Good* under the FGP arrangement and as a *Service* under a processing arrangement;
 - strong support (84 percent) on the proposal that classification of FGPs should NOT depend on the affiliation with the contractor responsible for transforming the goods; and
 - large majority of respondents (75 percent) supported including supplementary component(s) under the Goods Account but were evenly split between the two options.
- **Decision Tree:** around 65 percent agree on its usefulness—should cover a wider range of aspects to better respond to the diversity of situations.
- ***Negative Exports in Merchanting of Goods:*** large majority (85 percent) agreed with the reasoning of the compromise and encouraged inclusion of additional explanations in the new standards.

Outcome of the Global Consultation

- **Merchanting of Services:** majority of respondents supported the GN's conclusions regarding this concept and found the recording of fees separately as appropriate.
- **Bundled Services:** proposed treatment found conceptually acceptable by around 70 percent of respondents, but various practical challenges also highlighted.

Major **practical challenges** identified by respondents with regard to ...

- **Global Manufacturing Arrangements (FGP):** difficulties in identifying (i) the ownership of material inputs, as well as the enterprises engaged in global production arrangements in the main registers, complementary information, and in Customs; and (ii) the lack of capacity to develop adequate collection instruments.
- **Trade-related Intermediate Services:** weaknesses in data sources to separate the intermediation fee from the actual service components and sometimes from goods or other transactions with affiliated companies; difficulties in identifying information on global service intermediation arrangements and DIPs.

A relatively small number of countries are willing at this stage to engage in experimental exercises to estimate the proposed supplementary items related to FGP activities.

Questions for Discussion

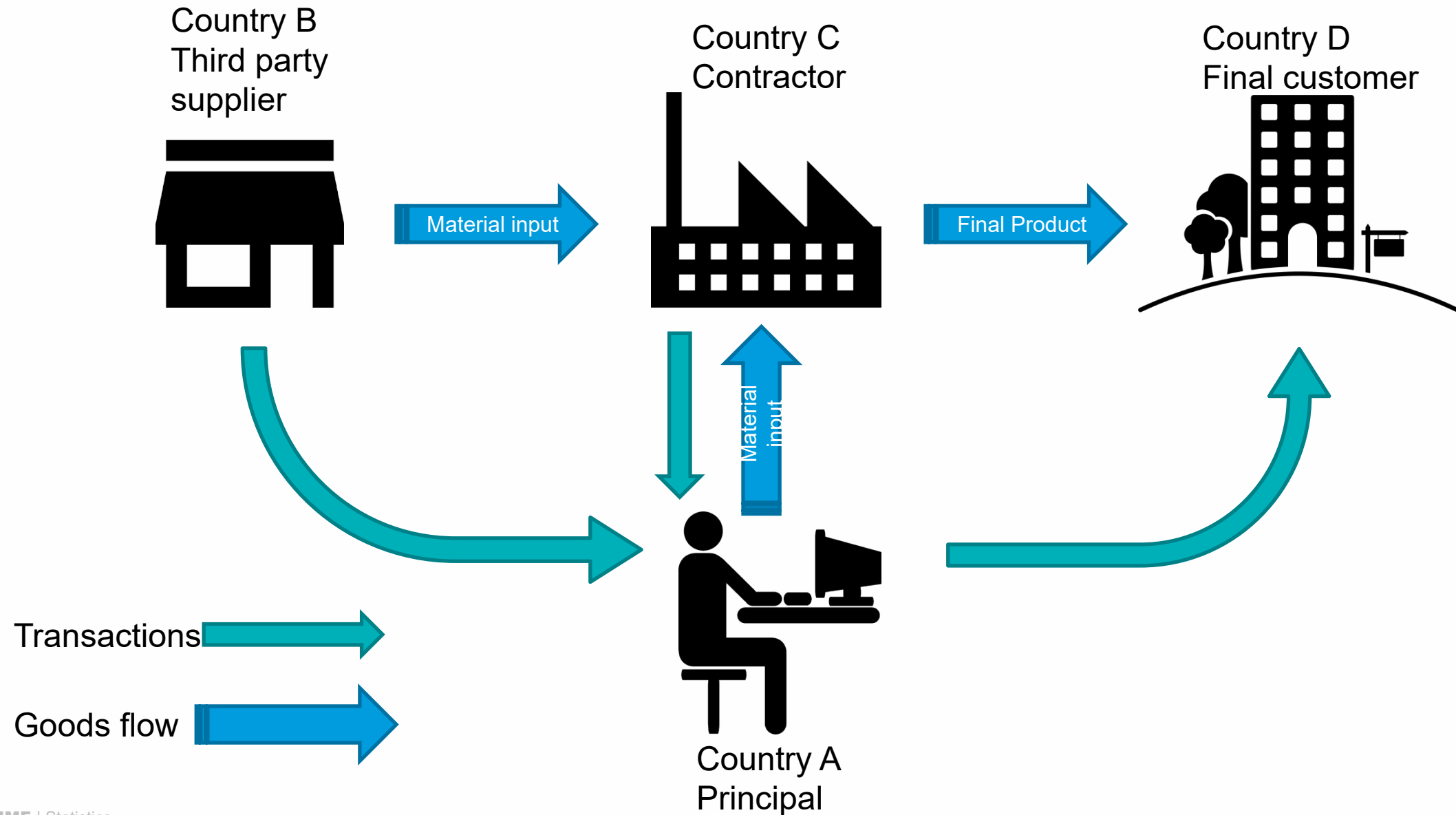
- 1. Do the Committee and the AEG agree with the recommendation to record FGP transactions gross, instead of the current net treatment?*
- 2. Do the Committee and the AEG agree with the recommendation of treating the output of a contractor as services only in the processing-type arrangements, and as goods in FGP-type arrangements?*
- 3. Do the Committee and the AEG agree with the recommendation of considering the definition of FGP activity independent of whether the contractor is an affiliated enterprise or not?*
- 4. Do the Committee and the AEG agree with the recommendation to expand BPM6 coverage of goods to show distinctly the transactions related to goods traded as part of global manufacturing arrangements as supplementary item under general merchandise (with the option to record possible trade with materials inputs in the FGP setup under merchanting as well (Option 2))?*
- 5. In the opinion of the Committee and the AEG, is the decision tree (Annex II) a supportive tool?*

Questions for Discussion

6. *Do the Committee and the AEG agree with the reasoning behind the recording of negative exports in merchanting of goods? If not, please specify why.*
7. *Do the Committee and the AEG agree with the recommendation that from a pure conceptual view, “merchanting of services” (as gross recording) is impossible? However, services can only be intermediated by a third person against an explicit or implicit fee.*
8. *Do the Committee and the AEG agree with the recommendation to record this intermediation fees (net), under trade related services as a supplementary “of which” item?*
9. *Do the Committee and the AEG agree with the recommendation that bundling of services, such as tour operators, should not be recorded as new products, but instead the components should be separately recorded?*

Backup Slides

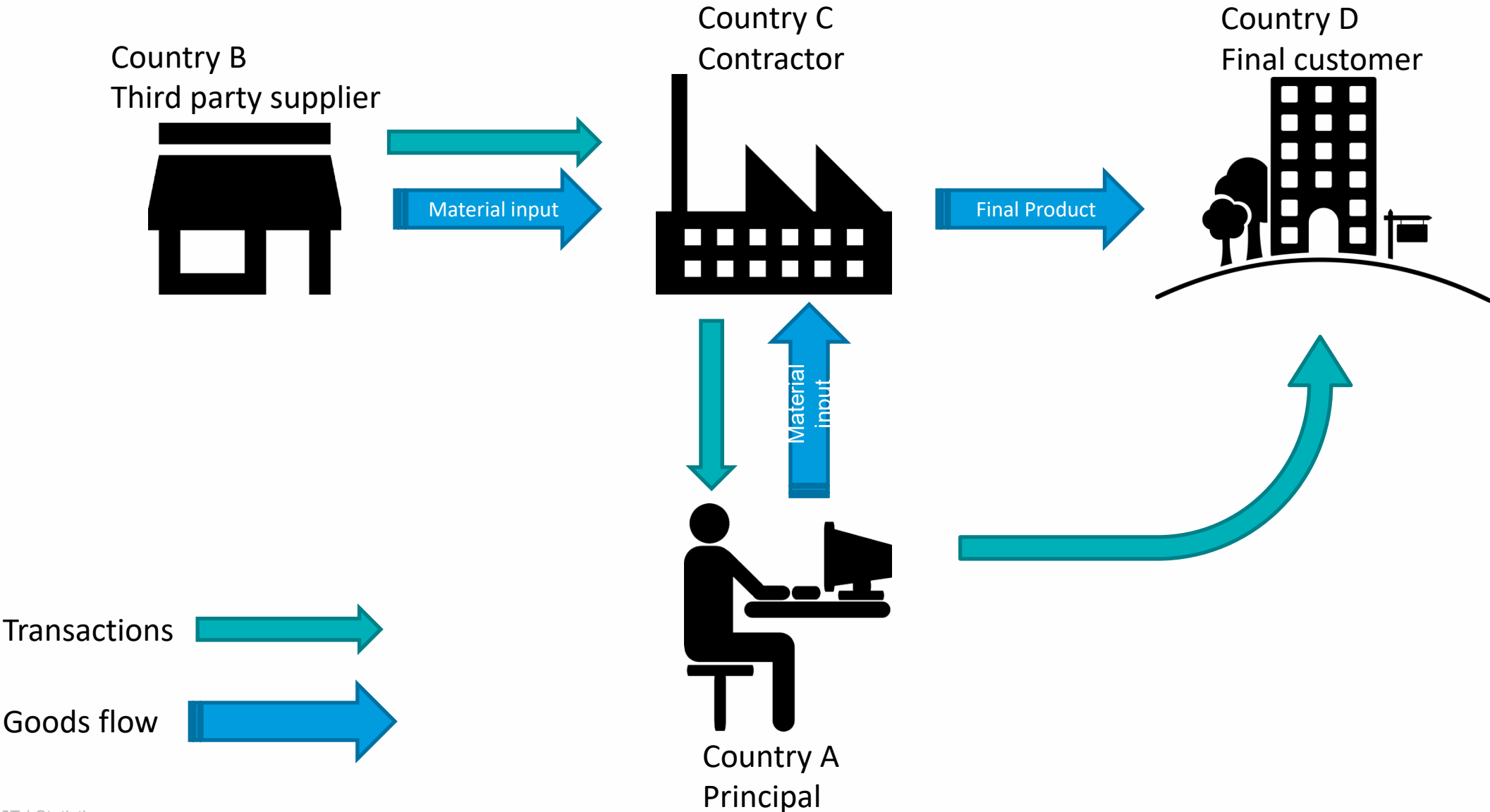
The Flows of Goods and Transactions in a Processing Arrangement



In a Processing Setup

Balance of Payments transactions, processing type arrangement	Item	Import	Export
Principal			
Sale of final goods (full value of good, including embedded value of IPP)	General merchandise on a balance of payments basis; of which Goods traded within a global manufacturing arrangement		X
Purchase of material inputs	General merchandise on a balance of payments basis; of which Goods traded within a global manufacturing arrangement	X	
Purchase of manufacturing services	Services	X	
Adjustment for goods crossing the border (ITGS)			X
Contractor			
Sale of manufacturing services	Services		X
Adjustment for goods crossing the border (ITGS)		X	X
Third party supplier			
Sale of material inputs	General merchandise on a balance of payments basis		X
Final customer			
Purchase of final goods	General merchandise on a balance of payments basis	X	

The Flows of Goods and Transactions in a FGP Type Arrangement



In a FGP Setup

Balance of Payments transactions, FGP Type Arrangement	Item	Import	Export
Principal			
Sale of final goods (full value of final good including embedded value of IPP)	General merchandise on a balance of payments basis; of which Goods traded within a global manufacturing arrangement		X
Purchase of processed goods from contract manufacturer (value excludes the embedded IPP)	General merchandise on a balance of payments basis; of which Goods traded within a global manufacturing arrangement	X	
Contractor			
Sale of processed goods (value excludes the embedded IPP)	General merchandise on a balance of payments basis		X
Purchase of material inputs	General merchandise on a balance of payments basis	X	
Third party supplier of material inputs			
Sale of material inputs	General merchandise on a balance of payments basis		X
Final Customer			
Purchase of final goods	General merchandise on a balance of payments basis	X	