

Trade in Services Between Enterprises of the Same Group

**Workshop on Statistics of International Trade in
Services**

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Data show that a very significant share of services is rendered between enterprises of the same group (intra-group), linked to a same transnational corporation (TNC).

Hypotheses:

- resident affiliates rendering services on behalf of non-resident parent /other affiliated companies to domestic and non-resident beneficiaries;
- non-resident TNCs subsidizing activities of their affiliates in Brazil by means of payments of services;
- flows related to transfer pricing practices being registered as services.

The assessment of intra-group transactions was carried out with the use of high-frequency ITRS data, based on exchange settlements registered on-line.

Characteristics of the Brazilian ITRS:

- mandatory registration for each and every resident to non-resident transaction;
- absence of a reporting threshold;
- Central Bank of Brazil's ownership, management and quality surveillance of the database.

The assessment of intra-group transactions was conducted for those services for which intra-group transactions are more frequently encountered:

- Communication;
- Computer and Information;
- Financial Services;
- Operational Leasing Services;
- Other Business Services (including Operational Leasing unless presented separately;
- Royalties and License Fees.

Brazilian international trade statistics: Selected services (US\$ million)			
	2006	2007	2008
Revenues			
Communication	205	276	466
Computer and Information	102	161	189
Financial Services	751	1.090	1.238
Operational Leasing	77	31	55
Other Business Services	7.524	10.076	12.915
Royalties and License Fees	150	319	465
Expenses			
Communication	102	96	299
Computer and Information	2.005	2.273	2.787
Financial Services	861	807	1.145
Operational Leasing	2.967	3.846	4.768
Other Business Services	4.964	5.802	7.863
Royalties and License Fees	1.664	2.259	2.697

Resident/non-resident pairs of affiliated companies were identified by means of the assessment of all individual exchange settlements of US\$ 100.000.

Transactions equal to or greater than US\$ 100.000 as a share of total			
	2006	2007	2008
Revenues			
Communication	84%	93%	96%
Computer and Information	67%	67%	64%
Financial Services	72%	77%	68%
Operational Leasing	90%	81%	65%
Other Business Services	74%	75%	75%
Royalties and License Fees	54%	59%	61%
Expenses			
Communication	78%	76%	91%
Computer and Information	82%	81%	82%
Financial Services	88%	82%	78%
Operational Leasing	96%	62%	64%
Other Business Services	73%	73%	71%
Royalties and License Fees	86%	88%	84%

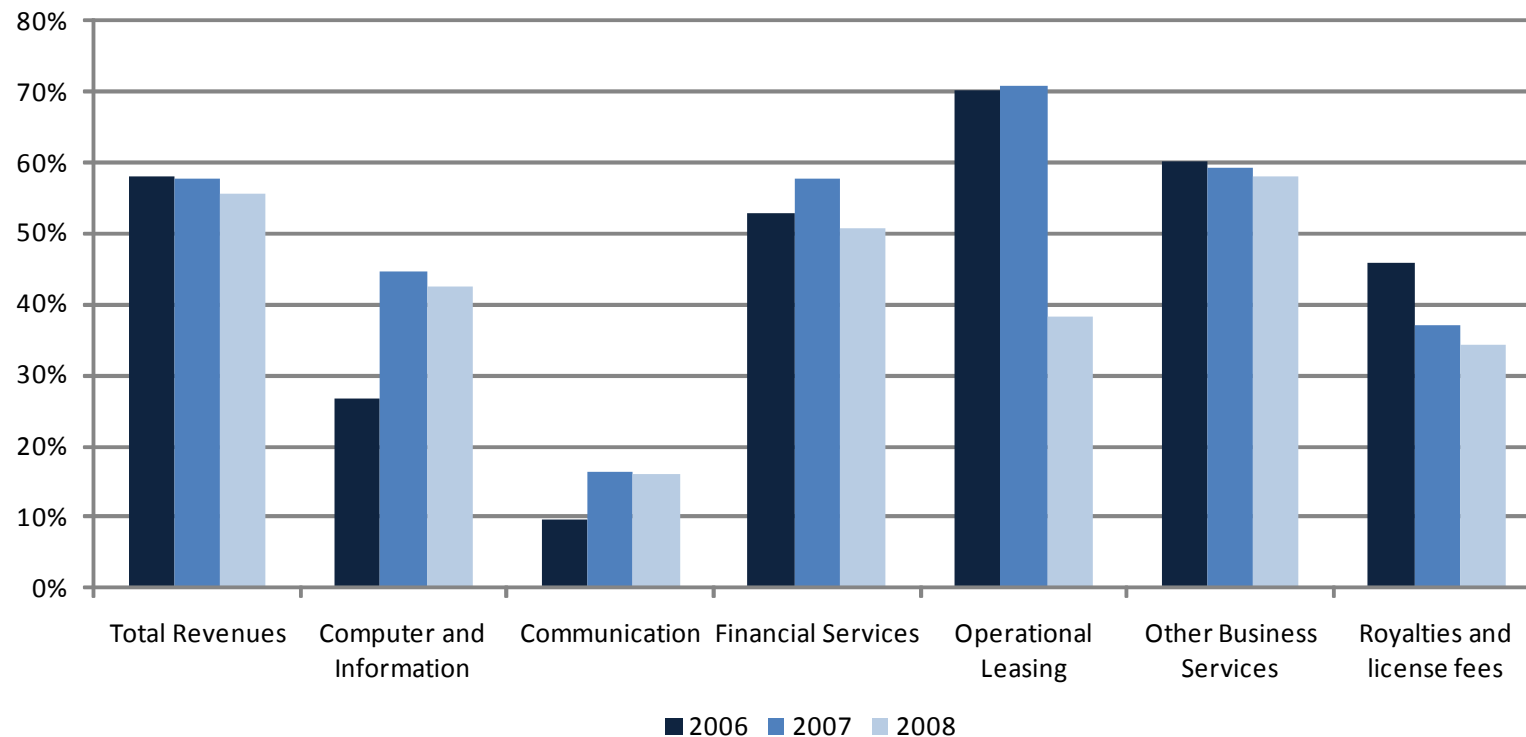
The assessment covered 26.506 transactions between residents and non-residents, of which 11.546 pairs were selected based on the expenses of services, rendered by non-residents to residents, and 14.960 pairs were selected based on revenues of services, rendered by residents to non-residents.

Intra-group relationship				
	Yes	No	NA	Total
Expenses	4.194	7.305	47	11.546
Revenues	9.417	5.135	408	14.960
Total	13.611	12.440	455	26.506

The number of resident companies that either provided services to or consumed services from non-resident affiliates or parent companies was approximately 2.740; The number of resident companies that both provided services to and consumed services from non-resident affiliates was 1.195.

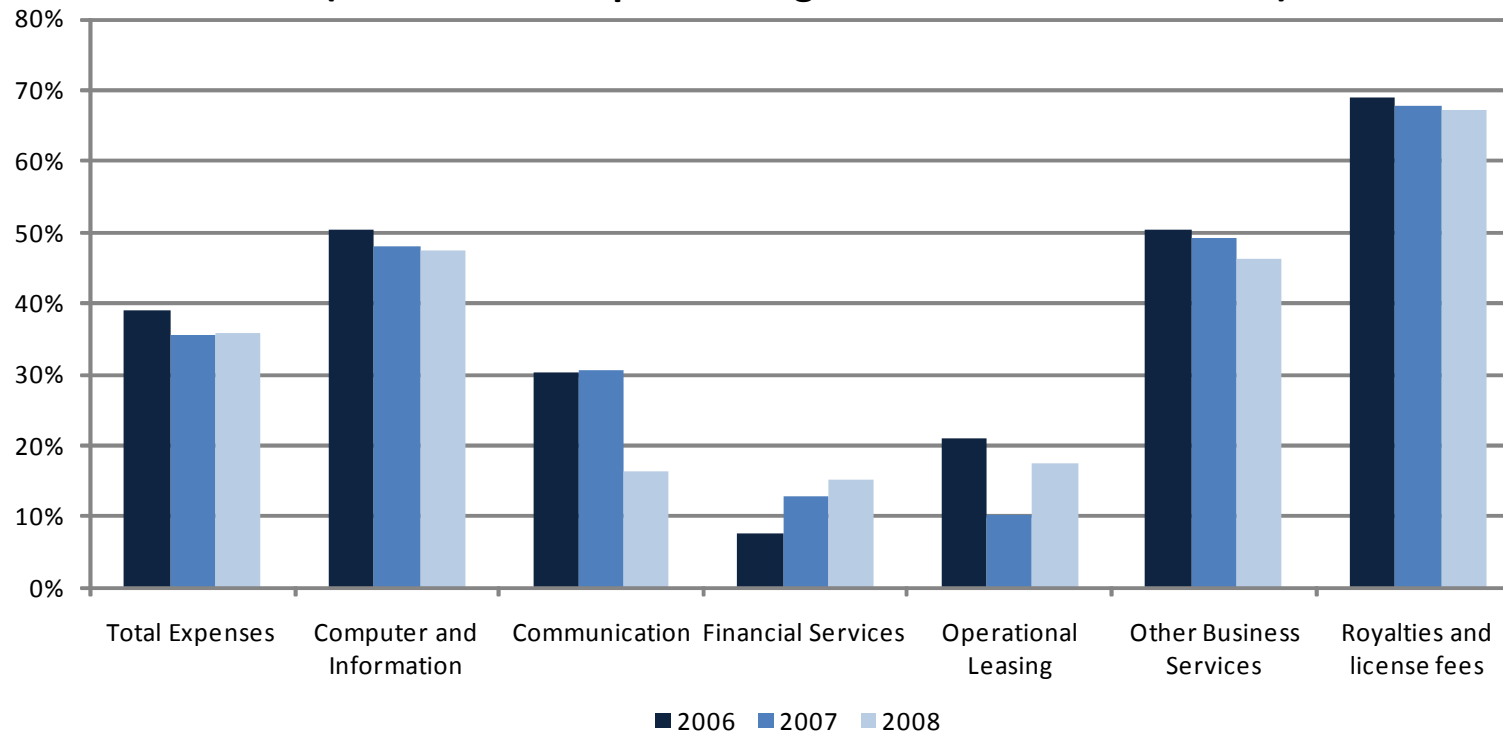
A high and stable share of intra-group transactions, as a percentage of total transactions for the selected services, was found both for revenues...

**Intra-group transactions as a share of total : Revenues
(transactions equal to or greater than US\$ 100.000)**



...and expenses.

**Intra-group transactions as a share of total : Expenses
(transactions equal to or greater than US\$ 100.000)**



For revenues, resident affiliates in general render a certain share to their parent companies or other affiliated companies regardless of the counterpart's residence.

**Intra-group transactions as a share of total - by service and country of counterpart
(transactions equal to or greater than US\$ 100.000)**

	Computer and Information	Communication	Financial Services	Other Business Services	Royalties and License Fees
Revenues					
United States	20%	8%	54%	66%	57%
United Kingdom	12%	22%	31%	62%	9%
Germany	20%	19%	70%	58%	46%
Netherlands	72%	0%	30%	67%	18%
France	15%	4%	37%	63%	62%
Switzerland	85%	0%	48%	57%	17%
Japan	3%	32%	77%	46%	18%
Italy	22%	72%	7%	34%	40%
Spain	97%	49%	13%	27%	4%
Argentina	13%	79%	33%	46%	2%
Mexico	40%	0%	29%	53%	15%
Portugal	55%	14%	15%	28%	5%
Denmark	0%	0%	94%	58%	0%
Finland	0%	60%	80%	91%	0%
Sweden	0%	0%	32%	75%	59%

For expenses, on the other hand, data show that intra-group services consumption vary significantly depending on the service and the country of the counterpart. Germany, Japan and Sweden for Royalties and license fees as well as Computer and information services.

**Intra-group transactions as a share of total - by service and country of counterpart
(transactions equal to or greater than US\$ 100.000)**

	Computer and Information	Communication	Financial Services	Other Business Services	Royalties and License Fees
Expenses					
United States	43%	9%	9%	20%	59%
Netherlands	63%	0%	24%	57%	53%
United Kingdom	19%	2%	6%	27%	44%
Germany	83%	17%	24%	36%	79%
France	26%	3%	22%	20%	78%
Japan	83%	0%	4%	34%	95%
Switzerland	29%	0%	13%	12%	89%
Italy	36%	89%	17%	41%	94%
Spain	60%	41%	26%	44%	9%
Sweden	96%	0%	13%	32%	95%
Canada	41%	0%	58%	39%	0%
Norway	45%	0%	16%	5%	30%
Ireland	63%	0%	6%	5%	47%
Argentina	16%	82%	10%	40%	22%
Denmark	43%	0%	29%	13%	55%

Data show that a very significant share of flows of services occurs between affiliated companies, somewhat challenging common sense of the operation of TNCs.

Revenue data convey the idea that resident affiliates are rendering services mostly to their parent companies, which seems unlikely unless the resident affiliate is, for example, rendering a service on behalf of a parent company, a case in which a foreign direct investment may actually be the subjacent transaction.

Expense data are significantly high and require further analysis in order to verify if there are taxation or other administrative or cost-related purposes that are serving as an incentive for transactions.

The assessment made so far only allowed for the identification of the flows.

Information is insufficient at this stage to safely draw any conclusion.

Further research, possibly by means of surveying selected companies, may be a necessary step in order to correctly determine the nature of these flows.

**Thank you for your
attention.**