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Draft Chapter 5
Merchanting of Services

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A. Introduction

1. Merchanting as a conceptual term in international statistical guidelines is well known among statisticians and it is widely referred to as relating to trade in goods only. However in recent international statistical discussions the concept has been extended to services, often designating this notion as "merchanting of services." The Balance of Payments Manual sixth edition (BPM6) and the Manual on Statistics of International Trade in Services 2010 (MSITS 2010) mention the issue of service merchanting, which in this context is also referred to as service subcontracting. But are merchanting of services and services subcontracting the same?

2. This Chapter attempts at distinguishing both. Chapter 6 of the Guide "Impact of Globalization on National Accounts" (Globalization Guide) initiated this discussion and questioned the BPM6 and MSITS 2010 recommendation that services merchanting type transactions should be recorded gross. It also recommended additional research on the issue, possibly leading to a proposal to include the concept of merchanting of services in future editions of the balance of payments manual (BPM) and the System of National Accounts (SNA).

3. The Globalization Guide provides two examples of merchanting of services in its annex 6.2: The first one addresses the combination of merchanting of goods and related services (bundled goods/services, for example the selling of equipment and related installation, maintenance and staff training etc.). The second refers to purchasing software (provided through electronic means) and suggests that a net treatment for the recording of transactions in merchanting of services would be appropriate. This is suggested because the entity arranging the transactions "is assumed to be little more than a "brass plate" office and its local costs to be zero." The fact that within a multinational group the "decision by a parent company to transfer the role (of arranger) to an affiliate in another country may result in a large discontinuity in the service data and profit/loss" also impacts on the national statistical data.

4. Other examples such as those presented in the case studies also question the recommended gross treatment of current international guidelines. Some multinational enterprises establish regional headquarters to serve potential clients in a particular region. The role of the regional office is mainly to market the service and receive payments, (which are then rerouted to the entity producing the service either as payments for services or as income flows), but the service rendered is actually produced by the parent company, or by an affiliate in another part of the world. In the case of provision of these services

through telecommunication networks through the regional office (rather than directly to the client) one could possibly argue that the service is actually consumed by this regional office. But to what extent is this relevant? However, in the case of a person sent by the parent company (or one of its other affiliates) directly to the premises of the final client to render this service it may be difficult to consider that the arranging entity is consuming the service.

5. Thus, the objective of this first draft of Chapter 5 is to advance the discussion on merchanting of services, in particular by raising a number of questions on current guidelines in relation to this subject, and offering a number of answers. It concludes that merchanting of services is different to subcontracting, by emphasizing the respective roles of the transactors, i.e. on the one hand the role of the entity facilitating the service transaction (i.e. the arranger who is actually producing a margin service on a service transaction), and on the other those of the provider and the consumer of the service subject of the transaction who are located outside the country of the arranger. **When considering merchanting of services, the delivery of these services (transactors and time of provision) and its structure in global production and supply chains as well as related payments are therefore decisive.** The authors suggest that the gross recording of flows from the perspective of the arranger is not appropriate given that this service is not provided by the arranger to the client, and that consequently a net recording would have better reflected the activity of the arranger (i.e. his intermediary role).

6. However the chapter does not intend to revisit existing guidelines (SNA 2008, BPM6 and MSITS 2010), but rather puts forward some conceptual arguments that clarify the concept of merchanting of services and further justify a separate additional presentation of data on a net basis for countries for which this phenomenon is important. For future revisions of statistical guidelines it adds arguments for a net treatment of these transactions from the perspective of the country of the arranger.

7. This Chapter first presents the related conceptual issues in existing statistical guidelines (Section B). Section C attempts to delineate the concept of merchanting of services. While presenting an example section D discusses the difficulty to currently quantify the significance of merchanting of services and considers the impact of a gross versus a net treatment. Section E includes a number of proposed clarifications to existing guidelines as well as some suggestions for future revisions of manuals (these should be considered as provisional and will undergo further refining through comments received and task force discussions). Given the difficulty to define the concept of merchanting of services, the chapter recognizes that it may be challenging for statisticians to collect this information and compile related data. In that context section F includes a number of proposals for the operational treatment of merchanting of services when it comes to the identification of related transactions in the country of the arranger.

B. Conceptual Issues in Existing International Guidelines

8. As indicated above, merchanting of services is a concept difficult to establish. The description of merchanting of services available in international guidelines is relatively poor. Some information in relation to the subject is available, in particular when it comes to the definitions of merchanting (of goods), services, recording of services transactions, agents and service subcontracting. The following sections will provide various definitions available in SNA 2008, BPM6 and MSITS 2010 that relate to the subject of this chapter, while raising a number of questions as to how this could be interpreted in the situation of merchanting of services.

Merchanting

9. Merchanting is not mentioned in SNA93. In BPM5 merchanting (of goods) was defined as a service (included in item merchanting and other trade-related services in BPM5 and shown as a stand-alone item in MSITS 2002). The value of merchanting was the difference between the value of the goods when acquired and the value of goods when resold, and was only shown in the country of the

merchant under credits. The BPM6 now recommends presenting merchanting under goods as "net exports of goods under merchanting" (credits) with further details to be provided for the purchase and sale of the goods, shown as negative and positive credits respectively in the balance of payments and national accounts of the country where the merchant is resident.¹

10. The change in the recommended BPM6 recording of related transactions from services to goods brought into stark relief the fact that there was an underlying assumption that merchanting applied to goods transactions only. Nevertheless, Chapter 6 of the Globalization Guide highlights that in previous versions of the Balance of Payments Manual merchanting is discussed in the context of transactions in both goods and services. As will be described below, there are cases related to transactions of services that resemble merchanting of goods because the service is purchased by an intermediary and resold without any transformation (whether bundled with other products or not). In addition it may be difficult to consider that the service is actually provided to this intermediary.² In other words although the full payments for the "purchase" and "resale" of the service may be recorded in the accounts of the intermediary, it may be more relevant to record the corresponding flows net rather than gross in the economy of the arranger. The term **merchanting of services** is therefore used here by analogy to the **merchanting of goods**, although in the context of services it may be more appropriate to refer to the facilitation of the provision of services by an arranger.

11. One of the important reasons for keeping the net recording basis for merchanting of goods is that it eliminates potential problems associated with recording international transactions of commodity traders. Commodity traders often buy and almost immediately resell commodities (such as gold or grain) in order to generate short-term trading profits. The net basis of recording eliminates the distortion in goods imports and exports that would otherwise exist in commodity trading centres if gross transactions in tradable commodities were included in goods imports and exports. In general a similar problem does not arise with most types of services, i.e. the goal of service arrangers is not to generate short-term trading profits. However the gross recording of services transactions in the country of the arranger may still be considered as distorting the picture as to the actual trade in services taking place in that country.

Services definition

12. Services are not easy to define and an additional difficulty is that it is often challenging to separate them from the goods with which they may be associated in varying degrees. BPM6 and MSITS 2010 respect the 2008 SNA use of the term services, which is defined as follows (2008 SNA, paragraph 6.17): "Services are the result of a production activity that changes the conditions of the consuming units, or facilitates the exchange of products or financial assets. These types of services may be described as change-effecting services (transformation) and margin services, respectively." Services are not separate entities over which ownership rights can be established. They cannot be traded separately from their production and by the time their production is completed, they must have been provided to the consumers, and consequently cannot be held in inventories.³

13. Transformation services: Change-effecting services are outputs produced to order and typically consist of changes in the conditions of the consuming units realized by the activities of producers at the demand of the consumers. They can also be referred to as "**transformation services**". They can change the condition of the consumer's goods, or the physical or mental condition of persons.

¹ This purchase and sale of goods constitutes the available information from the bookkeeping/accounts of the merchant.

² Except in the case of knowledge-capturing products it is not possible to talk of change of ownership of services. Services are defined as not being separate entities over which ownership rights can be established (SNA 2008 paragraphs 6.17 and 6.21). They cannot be consumed separately from their production (i.e. they cannot be stored). Transactions in services therefore generally refer to the provision of services (i.e. there generally cannot be a change of ownership of a service).

³ This statement is not completely correct when considering knowledge-capturing products, where many related transactions are recorded under services.

14. Margin services: The 2008 SNA (para. 6.21) defines **margin services** as follows: Margin services result when one institutional unit facilitates the change of ownership of goods, knowledge-capturing products, some services or financial assets between two other institutional units. Margin services are provided by wholesalers and retailers and by many types of financial institutions.

Recording of services transactions

15. The manuals also provide a number of principles that influence the way services transactions should be recorded. Those of interest in the context of defining the scope of merchanting of services are described here. First MSITS 2010 (paragraph 3.3) states that balance of payments services transactions are defined with respect to the residency of transactors, without a distinction with regard to the way the service is actually supplied. Manuals also specify that transactions should be recorded at the time services are **provided (or delivered or received)**. The provision of services should be recorded on an accrual basis in each accounting period, i.e., they should be **recorded as they are provided, not when payments are made**.

16. When referring to the compilation of data by trading partner MSITS 2010 further indicates that there is a need for detailed geographical allocations of the statistics on the various types of services supplied and consumed by each economy, according to the **economy of residence of trading partners** (paragraph 3.57-3.58) Although it does not make an explicit reference to services transactions the BPM6 (paragraph 4.148) states that the basic principle for data by partner economy is based on the economy of residence of the counterparty to the transaction or financial position.

Agents

17. BPM6 also clarifies the role of agents and how transactions where these intermediaries are involved should be recorded in the accounts. Paragraph 3.10 states that service activities may consist of one unit (an agent) arranging for a transaction to be carried out between two other units in return for a fee from one or both parties to the transaction. In such a case, the transaction is recorded exclusively in the accounts of the two parties engaging in the transaction and not in the accounts of the agent facilitating the transaction. Therefore, in the case of agents, **transactions should be attributed to the economy of the principal on whose behalf a transaction is undertaken, and not to the economy of the agent acting on behalf of the principal**. The accounts of the agent show only the fee charged to the principal for the facilitation services rendered. Paragraph 4.149 goes on further by clarifying the issue and providing an example: An agent is a party who acts on behalf of or as a representative for another party. Transactions arranged by an agent on behalf of a principal should be attributed to the principal, not to the agent. For example, if an agent issues tickets on behalf of an airline resident in another economy, the transactions and positions related to those tickets are attributed to the airline. An agent also may undertake transactions on its own account, including the agency services it provides to the principal. However this description does not mention specifically the possibility of having the agent recording the gross flows in his/her accounting records.

Coverage of item "trade-related services"

18. MSITS 2010 refers to a separate category for trade-related services in its classification of balance of payments services transactions (consistent with BPM6 definition). Trade-related services cover commissions on goods and service transactions payable to merchants, commodity brokers, dealers, auctioneers and commission agents. Excluded from trade-related services are franchising fees (included in charges for the use of intellectual property n.i.e.); brokerage on financial instruments (included in financial services); and transport-related charges, such as agency commissions (included in transport). However, again there is no mention as to how the transactions are indicated in the bookkeeping records.

Services trade and role of affiliates in transactions

19. MSITS 2010 also refers to similar "merchandising of services" types of activities in relation to multinational enterprises. It states that the intermediary role of some affiliates in services transactions makes the identification of the direction of the trade difficult to establish, in particular as compared to the direction of the payments for these services and the related income flows from the affiliate to the mother company. For example a service producer and a consumer are located in two different territories and the service producer has an affiliate in a third territory. The affiliate may act as an intermediary between the producer and the client (marketing or billing, i.e. the payments for these services pass through this affiliate). However, the provision of the service to the client is conducted by the mother company (either off-site or on-site). There may be additional difficulties if the client is a related party, or if the affiliate is itself engaged in producing part of the service.

Service subcontracting

20. MSITS2010 explicitly refers to services subcontracting in paragraph 3.62. This explanation follows that provided in BPM6 (paragraph 10.160). Service subcontracting entails the purchase and sale of services without any significant transformation of the service between the purchase and the sale (for example, in business, transport, construction or computing). For example, a specialist service arranger who has been paid to provide back-office functions for a customer may subcontract to another contractor. Subcontracting is therefore similar in some ways to merchandising of goods, as the services are purchased and resold. However, the degree of transformation involved may be harder to identify for services than for goods, for example, in the case of bundling and managing the services of different contractors. "Service merchandising" of this kind is an important activity in some economies.⁴ The value of services exported and imported in the economy of the service arranger is recorded on a gross basis. This treatment is applicable because the arranger buys and sells the services; if the arranger acted as an agent on a commission basis, then only the commission would be recorded as a service provided by the arranger and these services would be classified to the appropriate specific service classification, for example, *transport, construction, computer, or other business services*. BPM6 states that if the activity is significant for an economy, "net data could be provided on a supplementary basis". *MSITS 2010* goes further by encouraging compilers to also publish additional data on a net basis when this is relevant to the economy of the compiler.

21. However are all these descriptions, in particular the latter on service subcontracting, sufficient and relevant when it comes to discussing merchandising of services? The above actually raise a number of questions. First it may be difficult to establish if there has been transformation, in particular in the context of bundling, and does this necessarily matter when the production of a service is contracted out to another company? And even if it may have been bundled, should we not unbundle transactions? Second, when the provision of a service is contracted to another producer should this always be considered as intermediate consumption of the principal? Third, does the example of the specialist service arranger properly describe subcontracting? How does this relate to the underlying principle for recording services which is who renders the service and who consumes it? In other words, is it relevant to refer to subcontracting as being similar to merchandising? What is the complementarity, what are the differences between both concepts? All these questions will be tackled below when delineating the concept of merchandising of services.

⁴ A distinction should be made between "service merchandising" as discussed above, and merchandising services related to goods, as presented in the 2002 MSITS. The latter is no longer within the scope of services transactions, as the gross values of the goods acquired and sold in that process are now included in goods. These goods are recorded as negative credits when acquired by the merchant and as credits when sold.

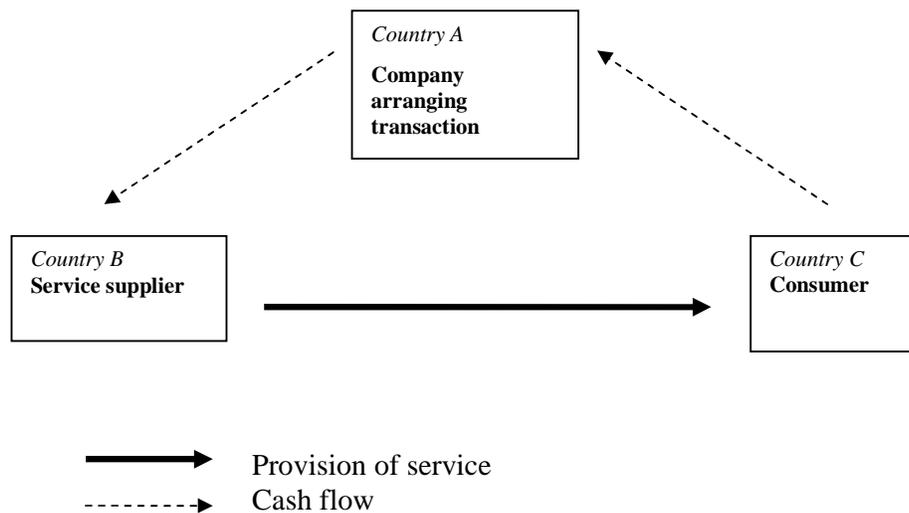
C. What is Merchanting of Services?

22. As indicated in Chapter 6 of the Globalization Guide it is necessary to go back to BPM3 (1961) to find an indication of merchanting of services, however once again no definition is provided. The Globalization Guide proposes to extend the treatment of merchanting to cover services. It suggests certain examples in telecommunications and internet services that could fall under this heading and makes a case for a net recording in the country of the arranger/merchant. This is, however, in the context of recommended future work on this topic.

23. When discussing merchanting of services, it is important to clarify first what it comprises. This can be done based on the concept definitions listed in section B, in particular borderline cases, to specify what it is not.

24. First the issue can be described as follows: an entity in country A purchases services in country B and promptly sells them, without transforming them in any way, to a client in another country (C). This is a form of merchanting as it refers to the payment by a resident company to a non-resident entity for a specific service and the subsequent receipt corresponding to the same service consumed by a company in a third country. It may be considered that the service is provided directly to the consumer in C (see chart 5.1). The parties in this description may be related or unrelated (A and B, or A and C, or A, B and C).

Chart 5.1: Merchanting of services



- *What type of service is merchanting of services?*

25. Based on the above definitions of services one can identify that merchanting of services should be considered a margin service. This could apply to all services and knowledge-capturing products that are classified as services (e.g. electronically delivered software or audiovisual products). Although the arranger is recording the gross payments and receipts in its accounts the arranger is only producing an intermediary service to facilitate the transaction between both parties.

- Is the arranger consuming/providing the service subject to merchanting?

26. As can be seen from above, the important aspect for recording services transactions is who provides or delivers and who receives/consumes the services. In general services cannot be stored,⁵ and consequently have to be consumed at the time they are produced. If there is an intermediary in the services transaction, it is therefore difficult to consider that the intermediary is himself consuming the service and producing the same service for consumption by the final client, even though the intermediary may have recorded the gross payments in its accounts.

- Has transformation occurred?

27. The treatment should be similar to goods. If the service subject to the transaction remains the same then we would consider a case of merchanting of services. On the contrary if the product is changed while being transacted then it cannot be considered as merchanting. If the service is transformed then we would consider that the principal has consumed the service and therefore the full amounts would be recorded as imports of the economy of the principal and it would record exports of (another type) of service.

- Is the service bundled by the arranger with other services or goods? How should this be treated?

28. Some arrangers will bundle various types of services (and goods) and the final client will only make one payment for a package of goods and services (which will also cover the service fee for arranging these products).⁶ If it is not possible to unbundle the various components it may be a strong indication that a kind of transformation has occurred and that the client is buying a different product (although the CPC may not necessarily identify these bundled products as a separate product). In that case the full amounts should be recorded as transactions of the arranger. However if it is possible to unbundle the transactions, as is often the case in the types of transactions considered here, then it can be considered that no transformation has occurred. In this case we can consider that this is a type of merchanting of services.⁷

- Is a commission paid?

29. If the arranger receives an explicit commission for a service transaction, i.e. he does not buy and sell the service, then the payment for the explicit commission would rather refer to trade-related services. In this case we would not consider this as merchanting of services, in the same way as we do not consider that it is merchanting of goods if the goods subject to the transactions are not bought and sold by the intermediary.

30. If the arranger is receiving the full payment for the service from the client and paying the producer for the service provided to the client, and making its earning from the difference between its payments and receipts, in this case BPM6 and MSITS2010 give some indications as how to treat the transaction(s) in the sections dealing with agents, transportation and travel. The only service receipts to

⁵ Some services transactions are related to knowledge-capturing products which can be stored.

⁶ BPM6 (paragraph 3.17) does not refer specifically to services transactions, but it recommends to unbundle two or more different transactions that appear as a single transaction from the perspective of the parties involved.

⁷ Travel agencies and tour operators may be considered as functioning in a similar way. Besides the treatment of transactions of travel agents which is described, BPM6 and MSITS 2010 do not provide further information on unbundling. However both manuals propose an alternative presentation of travel by type of products consumed which would encourage the unbundling of transactions. The unbundling of package tours is recommended in the tourism recommendations (including the Tourism Satellite Accounts). This also provides appropriate information to link with the needs for establishing supply/use tables. It is also important to note that the CPC often does not recognize bundled products such as package tours as separate products.

appear in the balance of payments in the country of the arranger would be the amount received for the intermediary service provided, if he and the other parties are residents of different economies. The trading margin would represent the difference between the two gross flows.

- It is often argued in statistical standards that subcontracting and merchanting of services are the same thing. To what extent is that true?

31. Beyond the definition provided in international guidelines (see above) it is generally understood that subcontracting refers to a principal assigning parts of its responsibilities and tasks to another party in the context of a contract he has with a client. This generally takes place for complex projects where parts are contracted out, but it could also be that all the service is subcontracted. This does not really reflect what is described in BPM6 and MSITS2010.

32. Subcontracting refers to the fact that a principal, who is contracted to provide a specific service that he would normally provide himself, decides not to do so, either because he is not in a position to render it at the time the service should be or he has decided not to deliver it himself as a consequence of a business model he has established. In other words the activity (be it principal or a secondary one) of the principal may help define what refers to subcontracting and what refers to merchanting. For example an entity of a country A is engaged in the provision of transport services (i.e. its principal or secondary activity is transport services), and is contracted by a foreign client of C to transport goods from (the customs frontier of) B to country C but he decides to ask another transportation enterprise from D to take care of (part of) this transport. In this case we can regard that the entity in A has subcontracted with an entity in D to provide a service that he could otherwise have provided in the context of its regular activities (i.e. outsourcing). It is an integral component of the service he is providing to foreign clients. This is not a case of merchanting of services.

33. However if the entity in A was not engaged itself in the provision of transport services (i.e. it never transports passengers or goods) but is simply arranging the transaction between the producer and consumer of the transport service (and involved in the payments and receipts for this service), then this would be considered as merchanting of services. , i.e. the only service he is himself providing is a margin service.

34. These considerations can be extended to agents that act as intermediaries and take on the transactions in their accounting records (purchase and sale). We could consider this as a type of merchanting of services.

- What is the main activity of the intermediary in the transaction?

35. Based on the above it may be possible to use the type of activity conducted by the intermediary to define if a transaction is relating to merchanting of services or not. Using the example above, if the principal A is not engaged in a transport services activity itself (e.g. activity not included under ISIC 49 Land transport and transport via pipelines, 50 Water transport or 51 Air transport) but its main activity is to act as an arranger of transportation services (i.e. ISIC 5229 Other transportation support activities) for foreign clients and foreign transportation companies, then we will consider that he is arranging the transport transactions (i.e. as an agent in the transport transaction). Consequently we would consider that the principal is conducting merchanting of services if he is recording the gross flows in his accounts.

- Does the relation between the parties matter?

36. As for other types of transactions the recording does not change whether the different parties engaged in the merchanting of services transactions are related or not. However merchanting of services may be more difficult to establish if an affiliated intermediary is taking part in the production of the service. In that case, and if of importance in the compiling economy,, it would be useful to conduct a thorough analysis of the actual share of the intermediary in the production of the service to decide if it is necessary to consider merchanting of services or not.

- *Other considerations*

37. Some additional problems with defining merchanting of services might be noted, such as in the case of services that can be re-sold more than once. To illustrate, suppose a firm acquires ownership of customized software. That software could be re-sold more than once. Merchanting reflects the difference between the value of purchases and re-sales, but where only one purchase transaction can be associated with multiple re-sale transactions, it is unclear how to allocate the cost of the purchase over each of the subsequent re-sale transactions.

38. Another issue may be related to the consideration of the arranging entities as special purpose entities (SPEs). As noted in the Globalization Guide although there is no agreed list of types of SPEs, there could be such entities with little or no physical presence which are established for the purpose of invoicing sales of a worldwide company on behalf of a non-resident parent, whether for tax or other reasons. But to what extent could these be considered as been covered by the concept of merchanting of services if the entity is not actually arranging transactions? Annex 4.4 of the Globalization Guide presents a classification table by Eurostat of special purpose entities in which merchanting (of goods) companies are also identified as a possible type of SPE. Again, if merchanting of services is recognised, this classification could be extended to also cover the activities of entities arranging services transactions.

Links with intellectual property related transactions

39. Chapter 3 describes the role of transfers of intellectual property inside global production chains. In particular it highlights that within a multinational enterprise, the ownership of the Intellectual Property Products (IPP) may be allocated to one entity of the group located in one country rather than another to maximize its revenues, with various underlying reasons. It also emphasizes that the use of the intellectual property in most cases will take place in production units placed in countries other than the one of the unit defined as the economic owner. These transactions could take place within a multinational enterprise group or with third parties. However it may not necessarily be the unit which is the economic owner of the IPP that arranges the transactions for the use of intellectual property, in particular if the economic owner of the IPP is a special purpose entity with little or no physical presence (i.e. a "brass plate") in the economy where it is registered. As for other types of service transactions, these may be arranged by a unit in another country facilitating the exchanges between the economic owner of the IPP and the producing units in other countries. This could be considered as merchanting of services.

D. Quantify the Significance of Merchanting of Services

40. It is difficult at this stage to judge the overall significance of this type of activity. However, it may be important for a number of economies and specific services sectors as can be shown in the following example of Ireland for 2011.

Table 5.1 Merchanting related transactions in Ireland, 2011, billion euro

Merchanting	DR.	CR.	NET
Goods	47.3	52.5	5.2
Services	7.4	8.2	0.8
Computer software (services)	7.4	8.2	0.8
Telecommunications	0.017	0.04	0.023
TOTAL	54.7	60.7	6

41. Given that Ireland's exports of services for 2011 were around USD 112 billion and imports approximately USD 116 billion (BPM5 basis) taking into account the net treatment of merchanting of services, it is possible to estimate that if a gross treatment would be applied for the transactions relating to merchanting of services, this would increase its trade in services by 7 and 6 per cent respectively. This would also influence income flows.

42. If a gross treatment was to be kept, as indicated in annex 6.2 of the Globalization Guide, a decision by a major group to transfer the role of the entity in Ireland, which serves to route the various transactions within the group, to another country may result in a large discontinuity in the service data and profit/loss information.

43. Although it is believed that such arrangements would be of importance for major service traders in the world economy, this cannot be assessed given the uncertainties there has been around this concept until now. Once the boundary of the concept is defined it is proposed at a future stage to conduct a survey of compilers to assess the size of merchanting of services in a number of countries.

44. It is also believed that having a gross treatment may distort significantly the picture. In economies where such activities could be important, we would have trade in services data which would not reflect the production actually taking place within these economies. The only value created would correspond to the facilitation service provided by the arranger. In addition, the gross treatment would also distort analysis of bilateral flows, and reduce the usefulness of the information for trade analysis and (trade) policy formulation.

45. Further research would be needed to identify if this also affects other aggregates, input-output analysis, etc. If merchanting of services is recognised it will be necessary to also account for the transactions on a net basis in order not to inflate artificially the trade in services taking place, even if it is only for one international transaction. This would most probably also better reflect the business reality. The producing unit sees itself as providing a service to the final client and the arranger sees himself as providing a facilitating service.

E. Proposals for Clarifications or Inclusions in Future Manuals

46. These proposals are listed as a starting point to help clarifying the issue in current guidelines. Consequently these should be considered as provisional and are for discussion. These will undergo further refining through comments received and task force discussions.

- Advocate clarification of merchanting of services through MSITS2010 compiler's guide and trade in services statistics technical assistance.
- Re-emphasize the BPM6 note and MSITS 2010 encouragement to produce supplementary data on a net basis for countries where merchanting of services is considered important.
- Given current guidelines available classify merchanting of services type of transactions related to transport, travel and finance/insurance to appropriate categories and the rest as trade-related services.
- Compile a complementary grouping as recommended in MSITS2010 for total trade-related services with a breakdown (merchanting/non-merchanting types of transactions, goods/services with further details as to the types of services that are subject to merchanting).

47. If the concept of merchanting of services is recognized, then for future revisions of Manuals, a net treatment of merchanting of services would be recommended.

F. Operational treatment – How to Measure?

48. Merchanting as a conceptual term in international statistical manuals is well known among statisticians but within the business community it is neither used nor understood as widespread. It may be even more difficult to identify for services than it is for goods. Merchanting of services, considered a margin service on transactions related to transformation services, may consequently be challenging for compilers to identify in practice or for respondents to identify themselves as service arrangers. The data should therefore be collected by providing clear guidelines understandable for business in terms of the type of information that is needed. First of all the respondent could be identified as a service arranger by asking if he is arranging service transactions while recording all payments and receipts in his accounts. Some specific criteria may be used to determine merchanting of services:

- identify the actual parties to a transaction in particular by analysing what the intermediary's activity and role are;
- if in questionnaires respondents report big imports of specific services as well as exports of the same categories of services this may suggest that we are in the context of merchanting of services;
- evaluate the degree of transformation (is bundling a sort of transformation (be it goods and services or services alone), and if so to what extent. This could be identified by encouraging the unbundling in trade in services questionnaires. If it not possible (or difficult) this could be an indication that we are not in the context of merchanting of services;
- if for big multinationals the intermediary affiliate is taking part in the production of the service and this practice is of importance in the compiling economy, it would be useful to conduct a thorough analysis of the actual share of the input of the intermediary in the production of the service to decide if it is necessary to consider merchanting of services or not.

49. Paragraph 6.27 of the Globalization Guide provides some guidelines for identifying those active in the merchanting of goods. Some of these guidelines could also be applied to services:

- First, an entity or enterprise solely involved in merchanting of services normally employs a relatively small staff while having substantial turnover - turnover per person tends to be very large. The national statistical institute could use its business register to identify such cases using ratio analysis.
- MNEs sometimes engage in merchanting of services in conjunction with the production of goods or other services.
- The analysis of administrative data such as corporation tax records or dividend tax payments can also be used to identify firms with large taxable profits but no substantial physical presence in the economy, which could be characteristics of services merchants. Comparing trade in services data with corporation tax records may reveal another indication of merchanting of services. Particular enterprises may earn large profits without having exports of services which might be expected.
- An awareness of MNE practices and recording conventions is also helpful in identifying these activities, and statistical staff visiting MNEs should be aware that they may undertake merchanting of services activities, and be prepared to ask appropriate questions. It should be noted however that the term "merchanting" is generally not used by MNEs or other enterprises, which makes it more difficult to detect the activity. This is even worse for merchanting of services. In Ireland, an enterprise name ending in "EMEA" (short for "Europe, Middle East and Africa") sometimes indicates involvement in merchanting (i.e. of goods).

50. Paragraph 6.28 of the Globalization Guide goes on stating "In general the detection of merchanting of services activities requires statisticians concerned with business services surveys and national accounts and balance of payments compilers to be aware of the phenomenon and also of the likely circumstances in which merchanting may occur. They may then devise questions designed to measure the activity." This could be done by clarifying the concept through MSITS2010 compiler's guide and trade in services statistics technical assistance, as suggested above.

G. SUMMARY

51. This chapter attempts at conceptualizing the merchanting of services activity. Analog to merchanting of goods it describes the international guidelines and definitions of services that might be relevant when analysing merchanting of services. Against a number of questions, the Chapter argues that merchanting of services is different from subcontracting and justifies a net reporting similar to merchanting of goods in order to avoid artificial inflation of accounts in the balance of payments.

52. It should be highlighted that the draft of this chapter is a first attempt at conceptualizing statistically "merchanting of services". Further discussions are needed to make this concept sound and statistically operational. Case studies are invited to help sizing the respective trade flows and to judge their possible impact in the context of globalization. Further work is also needed to receive some insight on the impact of supply-use and/or input-output tables.

References (to be completed later)

IMF Balance of Payments and International Investment Position Manual 6th edition (BPM6)

United Nations System of National Accounts 2008 (SNA 2008)

United Nations :Manual of Statistics on International Trade in Services (MSITS 2010)

International Trade in Services and Intangibles in the Era of Globalization by Marshall Reinsdorf and Matthew J. Slaughter, editors NBER <http://www.nber.org/books/rein09-1/>

United States Government Accountability Office Offshoring of Services (November 2005)

PROPOSED CASE STUDIES

(these case studies are under preparation/investigation)

Case study 1: Sweden case

Case study 2: Irish case

Case study 3: HK, China

Text