Service related Global Production arrangements
(Merchanting or Arranging of Services)

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Arranging of Services (Merchanting)

- On the research agenda for UNECE Globalization programme

- Chapter 10 devoted to this matter in Guide to Measurement of Global Production (developed jointly with WTO)

- Previously discussed in Guide to Globalization in National Accounts
BPM6 ............ *similar in some ways to merchanting of goods, because the services are purchased and resold*” (BPM6 par. 10.160)

MSITS 2010 ............ *Service subcontracting entails the purchase and sale of services without any significant transformation of the service* (MSITS 2011 par 3.74)

SNA 2008  No merchanting of services discussion
ISIC4 and Classification of Merchanting/Arranging of Services

- In some cases, units sell goods or services under their own name but the actual production, such as the physical transformation process in the case of manufacturing, is carried out fully or in part by others through specific contractual arrangements. (par 136)

- In general, if the principal outsources the complete production process of a good or service, it is classified as if it were carrying out the production process itself. This applies in particular to all service-producing activities, including construction. (par 142)

- In the case of bundled products including both goods and services it is very difficult to determine if transformation has occurred or not - not generally a case of merchanting of services.
Basic Framework
Merchanting or arranging of services

Provision of services

USA provider

Germany buyer

Ireland Merchant/Principal

Cash settlement

USA
USA provider

Germany
Germany buyer

Ireland Merchant/Principal

Cash settlement
Merchanting of Services

Should apply where distribution of services occurs

- Transformative services (education, health etc)
- Services intermediation

But

- Not acting as an agent – when commission based

And probably not

- Services subcontracting or outsourcing
Are the producer and consumer engaged in the purchase/sale of a service or is there a triangular sequence of service transactions?

Does the intermediary obtain an implicit or explicit margin?

What is the best way to present these transactions - net?

Without transformation – how to verify?

The intermediary arranges the supply without being engaged in the actual operation of the service?

Identify the business models involved?
Not like classic merchanting

- Internet based/ enabled services
- Trading within MNE groups
- Trading by undisclosed principals
- Tax planning
Activities and Sectors where it occurs?

- Trade in software licences
- Warranties for computer hardware / software
- Clinical trials
- Marketing
- Sale of manuals – soft copies
- Education services
- Au pair services
Actual activity where merchanting of services occurs in Ireland

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How to identify?

• Small number of staff
• All accounts
• Absence of software developers or research staff
• No IPP, no IT personnel, no qualified staff
• Nature of business versus number of staff
**Example 1**

- **Irish entity**
  - **Staff = 8**

- **Purchases from LU royalties - rights to sell licenses = $577m**

- **Sales of software licenses to 20 – 30 countries = $600m**

*Merchanting margin≈$20m*
Arguments

- Opportunity to earn a return
- Intermediation or trading occurs in many other activities why not in services?
- Services not physically produced - no inventories
- Mainly web enabled services
- Allows merchanting from anywhere to anywhere
Does it matter? Where merchanting of services could occur in the future or in the present
Conclusions

- Industrial classification, National Accounts and Balance of Payments generally indicate towards a gross recording of merchanting of services.

- Units engaged in these activities regarded as producers of the services.

- Potential distortion of data through gross recording - inflated aggregates.

- Potential for significant future growth in this area – first step is to quantify the extent of it now.