Cancels & replaces the same document of 28 September 2012

Working Party on National Accounts

Merchant and International Processors in SNA 2008

To be held on 4-5 October 2012
OECD Conference Centre
Beginning at 9:00 a.m. on the first day

This document has been prepared by Michael Connolly (CSO of Ireland) and will be presented under item 6 of the draft agenda

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Merchant and International Processors in SNA 2008

Michael Connolly – National Accounts, CSO Ireland

OECD WPNA - October 2012
Outline of Presentation

- Brief explanation of Merchanting and Processing in SNA 2008
- Merchanting and Processing in Global Value Chains
- CSO - LCU illustration of how activity related to Global Value Chains is identified, captured and recorded in Irish macro economic accounts
- Current approach to collecting data from MNEs in Ireland
Merchanting

Movement of goods/services

Germany - affiliate exporter/seller → Japan – third party importer/buyer

Change in ownership

Ireland - affiliate Merchant

Cash settlement
<table>
<thead>
<tr>
<th></th>
<th>Credit</th>
<th>Debit</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Ireland</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Goods under merchanting</td>
<td>100</td>
<td></td>
</tr>
<tr>
<td>Goods under merchanting</td>
<td>-80</td>
<td></td>
</tr>
<tr>
<td>Currency &amp; deposits</td>
<td></td>
<td>20</td>
</tr>
<tr>
<td><strong>Germany</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Goods</td>
<td></td>
<td>80</td>
</tr>
<tr>
<td>Currency &amp; deposits</td>
<td></td>
<td>80</td>
</tr>
<tr>
<td><strong>Japan</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Goods</td>
<td></td>
<td>100</td>
</tr>
<tr>
<td>Currency &amp; deposits</td>
<td></td>
<td>100</td>
</tr>
</tbody>
</table>
Country C - Affiliate
Processor

Payment for Import of service

Raw materials for processing

Country B - Affiliate
Principal

Physical movement of goods/services

Ownership of goods

Country D
Customer

Finished goods to customer

Cash flow
Global Production – Processing and Merchanting

US – Parent & Exporter of Raw materials
IE Global Manufacturer

NL Manufacturer
FR Processing & Packaging

Merchant LU

Customer IT
Customer CA
Customer UK

Physical movement of Goods/Services
Ownership of goods
Cash flow
Merchanting and Processing in Global Supply Chains

- Combination of Merchanting and Processing allows an MNE to choose where to allocate value added
- Actual production can occur at a number of different locations but these can be acting as processors for a principal located in a tax efficient location
- A merchant can distribute the product of the final customers worldwide
Merchanting and Processing in Global Supply Chains

- Global production can take different forms
- Gareffi (2010) describes five modes of governance in these chains:
  - market, modular, relational, captive and hierarchy and three factors
  - complexity, codification and capabilities
Merchanting and Processing in Global Supply Chains

- Processor can be either an affiliate of the MNE or a contract manufacturer (CME)
- In some cases CME will be funded for working capital by MNE
- In some cases the MNE will own all the inputs for the production
- In such situations the control exerted by principal on captive CME similar to MNE parent in a direct investment relationship
Large Cases Unit in CSO – A strategy for collecting data from MNEs
Importance of MNEs

Number of enterprises:
- Large (250+): 2%
- Medium (50-249): 98%

Persons Engaged:
- Large (250+): 22%
- Medium (50-249): 78%

Gross Value Added:
- Large (250+): 50%
- Medium (50-249): 50%

Number of Enterprises by Size Class:
- Micro (<10): 0 - 20
- Small (10-49): 20 - 40
- Medium (50-249): 40 - 60
- Large (250+): 60 - 80

000's
Importance of Top 50 enterprises

- Turnover: 70% (30%)
- Gross Value Added: 63% (37%)
- Gross Operating Surplus: 59% (41%)
CSO Consistency Unit

- Established in 1990s
- High concentration of MNEs in a small economy
- Focus on Trade, Monthly Industrial Production and Balance of Payments
- International Focus - towards Multi National Groups
- Quarterly/Monthly review of data
- Improve quality of data from these companies
Large Cases Unit

- Set up in 2009
- Covers whole range of economic data reported by MNEs
- Sole point of contact with companies
- Reduce burden of statistical reporting through generic electronic forms
- Using Micro data to inform Macro aggregates
Large Cases Unit

Editing, analysis, outreach

MNE data for aggregation

Industry
Services
Producer Prices
Balance of Payments
International Trade

Multi National Enterprises

Single Form
Capturing the activities of MNEs

- MNE affiliates frequently members of global value chains
- Challenges for compilers:
  - Distinguish between resident and non-resident activities for a given MNE
  - Detect merchanting activities – goods do not cross compiler’s frontier
  - Detect movement of goods abroad for processing - exclude from Intl Trade as no change in ownership
<table>
<thead>
<tr>
<th>Statistic</th>
<th>Merchanting</th>
<th>Manufacturing services on products owned by others - Processing</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Balance of Payments</strong></td>
<td>Recorded as net export of goods (imports or purchases recorded as negative exports)</td>
<td>Recorded as import of services – principal</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Recorded as export of services - processor</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Excluded from imports/exports of goods from principal to processor</td>
</tr>
<tr>
<td><strong>Monthly Index of Production</strong></td>
<td>n/a</td>
<td>Include production - principal</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Exclude production - processor</td>
</tr>
<tr>
<td><strong>International Trade</strong></td>
<td>Not included – doesn’t cross merchant’s border</td>
<td>Recorded in Goods exports and imports – no change in ownership therefore are excluded from merchandise trade in BOP</td>
</tr>
<tr>
<td><strong>Quarterly Inquiry to Industry (capital assets incl. inventories)</strong></td>
<td>Inventories abroad to be included. This occurs where only the first leg of the merchanting transaction has occurred i.e. purchase/import side of transaction has been completed</td>
<td>Inventories held by processor owned by principal to be recorded by country of principal and excluded from inventories of country of processor</td>
</tr>
<tr>
<td><strong>Census of Industrial Production</strong></td>
<td>n/a</td>
<td>Include all aspects of production in country of principal. Exclude for country of processor</td>
</tr>
<tr>
<td><strong>Annual Services Enquiry</strong></td>
<td>Include as a service activity</td>
<td>n/a</td>
</tr>
<tr>
<td><strong>Prodcom</strong></td>
<td>Record products in country of merchant</td>
<td>Record products in country of principal</td>
</tr>
</tbody>
</table>
Institutional and Legal Framework

- Highly centralised statistical system - CSO compiles BOP, Nat Accounts, FATS, International Trade statistics etc.
- Statistics Act (1993) gives CSO wide ranging powers to collect/access data for statistical purposes
- Memorandums of Understanding Central Bank of Ireland and Revenue Commissioners (tax authorities)
- Agreed data strategies with several other Government Departments
Administrative Data used by LCU

- International Trade - source Revenue/Custums
- Corporate Taxation - Tax Authorities
- Dividend withholding tax – Tax Authorities
- Statutory Accounts - Companies Registration Office
Summary and Conclusions

- Significance of Merchanting and Processing in Global Manufacturing
- Borderline issues regarding economic ownership of CMEs
- Strategy for dealing with MNC statistics through Large Cases Unit
- Address both the burden of statistical reporting and data quality