IMF Committee on Balance of Payments Statistics

BPM6 Update
Current Account Task Team (CATT)

APPROVED/FINAL VERSION

C.4 Merchanting and Factoryless Producers; Clarifying Negative Exports in Merchanting; and Merchanting of Services

C.4 Merchanting and Factoryless Producers; Clarifying Negative Exports in Merchanting; and Merchanting of Services[1]

This Guidance Note (GN), jointly produced by the Current Account Task Team (CATT) and the Globalization Task Team (GZTT), focuses on a range of aspects related to global production arrangements and on their recording in the National Accounts (NA) and the balance of payments. In particular, it aims at (A) disentangling the transactions related with global manufacturing arrangements and factoryless goods producers (FGPs); (B) providing some clarifications on the treatment of merchanting transactions, in particular the rationale behind the recording of transactions exclusively on the exports side in the economy of the merchant; and (C) clarifying existing guidance on the definition and treatment of "merchanting of services". Regarding (A), this GN recommends that (i) FGPs be classified in the manufacturing sector and be deemed to produce and sell goods rather than distribution services; (ii) the industrial classification of FGPs should not depend on the affiliation with the contractor responsible for transforming the goods; (iii) international transactions involving final goods within global manufacturing arrangements be recorded gross; and (iv) additional standard (or supplementary) component(s) be added to the balance of payments goods account to explicitly cover transactions related to goods traded as part of a global manufacturing arrangement (with a further breakdown proposed on a supplementary basis). Regarding (B), this GN clarifies the rationale behind the treatment of merchanting transactions and does not advocate for changes in the current standards. Finally, on (C), this GN recommends that, while "pure" merchanting transactions cannot involve services from a conceptual view, transactions in which an intermediary arranges the supply of a service between a producer and a consumer do exist in practice and should be distinguished from services subcontracting, where the principal maintains control of the production process. The GN proposes to assimilate these 'intermediation services' to the services provided by agents (as defined in the Balance of Payments and International Investment Position Manual, sixth edition*, paragraph 3.10) and suggests recording the intermediation fees (explicitly or implicitly) as a supplementary "of which" item under trade-related services.[2]*

SECTION I: THE ISSUE

BACKGROUND

1. **Although globalization is not a new phenomenon from a statistical perspective, national accounts (NA) and the balance of payments compilers around the world increasingly struggle in capturing the activities related to this phenomenon in macroeconomic statistics.** Clearly, the deepening of globalization in general, combined with an unprecedented expansion of the activities of multinational enterprises (MNEs) in particular, require a closer examination of the various aspects of recording the production processes under "factoryless goods production" arrangements and other issues arising from globalization.

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[2] The recommendations outlined in this GN were approved by the Committee and the AEG in the October 2021 meeting and the *Summary of Discussions* of this meeting can be accessed here.

2. **The *System of National Accounts, 2008* (*2008 SNA*) and the *Balance of Payments and International Investment Position Manual, sixth edition* (*BPM6*) have not given prominence to these phenomena.** Global production is not mentioned explicitly in the *2008 SNA*, while *BPM6* includes additional information on global manufacturing that is, however, not sufficiently detailed.

3. **More recently, important strides into understanding the nature of transactions related to global production—including the identification of the typology of various global production arrangements—have been made.**[3] However, further guidance is needed to better conceptualize the global production arrangements in general and the transactions involved within the SNA and balance of payments framework.

4. **In the context of the update of the international statistical standards (ISS), this task has been assigned to both the Globalization Task Team (GZTT) and the Current Account Task Team (CATT).** Considering the synergies and close interdependence in the coverage of these topics, it was decided to merge the work of the two teams and to prepare a common Guidance Note (GN) that would better reflect the conceptual context, typology and recording of various global production arrangements in the SNA and BOP in a harmonized, holistic approach. The joint team draws on the work undertaken by previous expert groups and the aforementioned methodological guides with the intent of providing clarifications to concepts and treatment of global production in the new set of SNA and BPM.

5. **This GN focuses on a range of aspects related to global production arrangements and makes suggestions for their treatment in the SNA and BOP.** In particular, it aims at (A) clarifying the treatment of factoryless goods producers (FGPs) as a type of global production arrangement; (B) providing some clarifications on the treatment of merchanting transactions, in particular the rationale behind the recording of transactions exclusively on the exports side in the economy of the merchant; and (C) clarifying existing guidance on the definition and treatment of “merchanting of services”.

ISSUES FOR DISCUSSION

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

6. **Global production arrangements are not sufficiently addressed in the *BPM6* or the *2008 SNA*.** The *BPM6*, Box 10.2 covers briefly the “recording of global manufacturing arrangements”, while paragraph 10.42 discusses the borderline in recording transactions under a merchanting arrangement vs. the processing type arrangement. However, neither the *BPM6* nor the *2008 SNA* covers explicitly the treatment of FGPs. To clarify the various types of global production arrangements, *the Guide to Measuring Global Production* (*GMGP*) provides a typology of the various types of arrangements using the *BPM6*, the *2008 SNA,* and the *International Standard Industrial Classification of All Economic Activities, Revision 4* (*ISIC Rev. 4*) as a starting point.

[3] These efforts culminated with the preparation of the Guide on “The impact of Globalization on National Accounts” (https://unece.org/DAM/stats/publications/Guide_on_Impact_of_globalization_on_national_accounts__web_.pdf), also referred to as *Globalization Guide*, and the “*Guide to Measuring Global Production*“ (or *GMGP*), (https://unece.org/DAM/stats/publications/2015/Guide_to_Measuring_Global_Production__2015_.pdf)

7. **The distinction between a manufacturer who outsources part of the transformation to contractors while maintaining ownership of the materials (processing type transaction) and a distributor simply buying and reselling goods (e.g., plain merchanting type transaction) is not contentious.** Compilers consider such treatment reasonably clear, but it becomes more contentious when the principal[4] provides critical inputs such as intellectual property product (IPP) services (i.e., the blueprints of the products)—which may explain a significant portion of the value of the final good—controls the production process, and controls the output, even if the principal does not have ownership of the material inputs during transformation.

8. **While *BPM6* paragraph 10.42 [5] does not explicitly address factoryless goods production, the *GMGP* interprets "the merchant who is the organizer of a global manufacturing process" as the current guidance in the FGP case.** Accordingly, the revisions to the *BPM6* and the *2008 SNA* should provide explicit guidance on cases where the value from these additional IPP related services is much larger than the value related to distribution services, and explicitly address specific cases of factoryless goods production.

9. **The *GMGP* argued that the supply of IPP, crucial to the transformation of a given good, should be considered as an input to production in line with material inputs.**[6] This would imply that the activity of principals engaged in so-called FGP arrangements would be aligned with the principals engaged in the so-called processing arrangements, and would thus recommend that they are to be classified as manufacturing, even if there is no ownership of the material inputs during transformation. The Advisory Expert Group on National Accounts (AEG) at its 2013 meeting agreed with this recommendation stating **"*factoryless producers—supplying intellectual property capital and marketing services and controlling the production process while using contract manufacturers to produce goods—are to be considered goods producers and should not be classified in distributive services*."**[7]

10. **As a consequence of the AEG recommendation to treat FGPs (that do not own material inputs) as producers of goods, the *GMGP* proposed that the output of the principal be recorded gross, and that the expenses paid to the contractor be considered as an input to production.** This would result in a consistent treatment for global manufacturing arrangements where the principals own some or all of the material inputs along with the IPP (a so-called processing setup) and arrangements where only the IPP is owned by the principal (a so-called FGP setup).

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[4] The term "principal" is used for the companies organising and controlling the global production arrangements.

[5] "If the physical form of the goods is changed during the period the goods are owned, as a result of manufacturing services performed by other entities, then the goods transactions are recorded under general merchandise rather than merchanting. In other cases where the form of the goods does not change, the goods are included under merchanting, with the selling price reflecting minor processing costs as well as wholesale margins. In cases where the merchant is the organizer of a global manufacturing process, the selling price may also cover elements such as providing planning, management, patents and other know-how, marketing and financing. Particularly for high-technology goods, these nonphysical contributions may be large in relation to the value of materials and assembly."

[6] Paragraph 2.69 of UNECE (2015), *Guide on Measuring Global Production*.

[7] https://unstats.un.org/unsd/nationalaccount/aeg/2013/M8-5.PDF

11. **For the update of ISIC Rev. 4 the Task Team on ISIC (TT-ISIC) agreed to classify FGPs in the manufacturing sector.** In light of the ongoing discussion on the definition of FGPs within the context of SNA and BPM update, during 2021, the TT-ISIC agreed that the criteria for what can be classified within the manufacturing sector be extended to include the ownership of IPP and not be solely based on the ownership of the input materials in the transformation process as reflected in ISIC Rev. 4. The distinction between affiliates and non-affiliates is not a relevant criterion in the definition and classification.[8] This is consistent with the 2013 AEG recommendation and the GMGP. Therefore, the TT-ISIC agreed to classify FGPs in the manufacturing sector (ISIC Section C) in the same class where they would be classified if they carried out the manufacturing process themselves. While it was recognized the analytical importance of separately identifying FGPs, however, based on current practices and feedback from TT-ISIC members, it is not feasible at this stage.[9]

12. **The *GMGP* also discusses whether or not the output of the contractor should be considered as a good or a service, and thus if the import of the principal should be recorded under goods or services,[10] however without a firm resolution.**[11] The current treatment of the output of the contractor in a processing setup is as service, even if the contractor supplies some of the material input (recorded as manufacturing services on physical inputs owned by others). If the activity of the contractor in a FGP setting is considered to be the same, regardless of whether or not the principal owns some or all of the material inputs, then one could argue that the production of the contractor is a service. However, this would imply that if the output of the contractor (that owns the material inputs) is considered a service, while the output of the principal is considered a good, we would have a paradoxical situation where the principal's production of goods is undertaken with the input of services only.

13. **The distinction between goods and services, and between goods and services providers may become more and more blurred.** Nowadays most high-tech products have goods (the hardware) and services (software, research and development (R&D)) components which are hard to disentangle. Similarly, the output of companies engaged in global production chains may be related to goods or services. Nonetheless, the output of the contractor should be recorded in goods and not in services if the contractor supplies the material inputs that it transforms into manufactured products, while the IPP and the production process are under the control of the principal.

14. **Recording the output of the contractor as a good or a service depends on whether or not we consider a given global manufacturing arrangement as processing—as commonly understood—or as an FGP arrangement (where IPP and the management of the production process are provided by the principal).** If the contractor supplies (and thus owns) the material inputs

[8] The TT-ISIC (2021) reviewed the 2019 meeting of the technical subgroup of ISIC but recommended to update the guidance.

[9] The proposed revised structure of ISIC will be submitted for approval by the United Nations Statistical Commission (UNSC) at its 53rd session in March 2022. The revised ISIC will be finalized during 2022 for approval by the UNSC in 2023.

[10] The activity of contractors is considered as manufacturing in both cases and are classified within the manufacturing industry.

[11] The task force responsible for drafting of the *GMGP* did not agree on whether or not the output of the contract manufacturer in an FGP arrangement should be classified as goods or services, but the majority supported treating the output as goods. The discussions are further described in paragraph 2.87 to 2.96 in the *GMGP*.

during the transformation, and the transfer of ownership of the final goods to the principal (who generally provides only the IPP) is done after the transformation, we consider this as an FGP type arrangement, and thus the output of the contractor will be considered a good. If, however, the principal owns some or all of the material inputs along with the IPP during the transformation, the output of the contractor is considered a service (even if the contractor supplied some of the material inputs during the transformation).

15. **Table 1 shows the output of both the principal and the contractor, depending on the type of global production arrangement they are involved in.** The table illustrates that, for the output of a contractor to be considered as a service, it should be involved in a processing type arrangement. Annex I illustrates the recording of transactions for global manufacturing arrangements in the production account in the NA and in the balance of payments using three case scenarios. These cases closely follow the example of the production of an athletic shoe, used in the *GMGP*. It also shows the flows of goods and services typical for a processing arrangement and those typical for an FGP arrangement.

Table 1. Output of the Principal and Contractor by Production Arrangement

Type of Arrangement	Output: Services	Output: Goods
Processing		
Principal		X
Contractor	X	
FGP		
Principal		X
Contractor		X

16. **In order to distinguish the trading activities within a global manufacturing arrangement (both processing and FGP type arrangements) the GN proposes that a distinct sub-item called "Goods traded within a global manufacturing arrangement" is introduced under the balance of payments standard component of Goods.**

17. **Cases 1–3 in Annex I show that if a principal changes from one type of arrangement to another (e.g., from a processing arrangement to a FGP type arrangement), it could result in different figures recorded in goods, even if the physical flows of goods are unchanged.** In order to shed light on the goods flows related to global manufacturing a further breakdown of the new item "Goods traded within a global manufacturing arrangement" could be introduced to distinguish between the flows of the final goods and those of material inputs (in line with the change of ownership principle) in a global manufacturing arrangement.[12] This additional breakdown would only be applicable for the country in which the principal is resident.

[12] Some of the final goods purchased abroad after manufacturing abroad might be returning to the domestic economy of the principal and should be adjusted in the transition between merchandise trade and balance of payments statistics to avoid double counting of imports. This should be addressed in more detail in the chapter discussing the transition from ITGS to BPM/SNA concepts, as well as in the GN B.10 *Auxiliary Reconciliation Tables*.

Suggested Options for Recording the Global Production Arrangements

18. **Considering the challenges of identifying these transactions and their distinction from the "pure" merchanting activities, as well as the practical aspects of data collection, two options that introduce relevant indicator(s) but as *supplementary items* to the balance of payments standard components, are proposed.**

19. **Option 1: One supplementary component under General merchandise.** Under this scenario, all sales/purchases of goods related to global manufacturing arrangements by the principal (e.g., both processing and FGP arrangements) would be recorded indistinguishably (on a gross basis) under the proposed supplementary item, covering:

a. On the exports side: all sales of *input materials* and *final* goods by the principal

b. On the imports side: all purchases of *input materials* and *processed* goods by the principal

20. **Option 1, as illustrated in Table 2, proposes a simplified approach to recording transactions related to global manufacturing arrangements by the principal (e.g., both processing and FGP arrangements) that takes into account countries' source data limitations.** However, to the extent that transactions in both final goods and input materials were previously recorded under merchanting (in *BPM6*), such transactions should be reclassified to general merchandise, thus causing potential breaks in series. Further detail could nevertheless be proposed for development in the relevant sections of BPM and its Compilation Guide (e.g., under the Goods Account) Trade manuals and/or followed separately by interested countries outside the BPM Standard classification.

Table 2. Option 1 (All Processing and FGP Arrangements are Reported by the Principal and presented together in "*of Which Goods Traded Within the Global Manufacturing Arrangements"* Category Under General Merchandise)

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

21. **Option 2: Supplementary components distributed between the general merchandise and the net export of goods under merchanting.** Under this scenario, supplementary items are proposed separately for:

a. General merchandise on a BOP basis (covering the final/processed goods and those material inputs procured by the principal from other countries), and

b. Net exports of goods under merchanting (covering the material inputs procured by the principal from third parties and sold to the contractor).

22. **Option 2, as shown in Table 3, proposes a distinct supplementary recording of net exports of material inputs that are procured by the principal abroad and sold to the contractor abroad and is recorded as an "of which" item under Net exports of goods under merchanting.** This option would entail the reclassification of transactions in final goods by FGPs from merchanting to general merchandise, thus still potentially creating a break in the time seriesfor economies with significant FGP activity. On the other hand, transactions in material inputs (acquired by the FGP and sold to the contractor) would continue to be recorded under merchanting, and separately identified if possible.

Table 3. Option 2 (Separate Supplementary Components in the Goods Account)

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 Material Inputs acquired abroad from 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 Material Inputs sold to Contractor abroad within a global manufacturing arrangement
1.A.a.3 Nonmonetary gold

23. **Global production arrangements affect more than just the goods and services account.** Another aspect of global manufacturing arrangement, which is out of scope for this GN, is the outsourcing of all inputs, including the IPP, to an affiliated enterprise abroad. This is leaving the "principal" (who outsourced everything) with no trade flows related to the global manufacturing arrangement, but is instead the recipient of income from the activity of affiliates abroad. Thus, one cannot draw conclusions on the effects of globalization on a single economy by looking only at goods and services since MNEs can move the ownership of goods and IPP between countries in a global production arrangement, to better fit their strategical goals. To get the full picture, the activity of domestic MNEs in other countries have to be taken into account as well. Therefore, the figures on global production arrangements could be supplemented with the figures from direct investment income from MNEs. An analysis of the manufacturing groups in Denmark showed that roughly one third of the earnings of production abroad was generated in affiliates, and thus recorded as primary income and not as goods and services.[13]

24. **GN C.2 *Goods, Services, and Investment Income Accounts by Enterprise Characteristics* has proposed a presentation of selected balance of payments items by enterprise characteristics such as size, ownership (including a distinction of MNEs), and activity.** However, to get a better picture of the effects on globalization of an economy, an alternative presentation of the balance of payments items related to the globalization should be defined, including the relevant goods and service

[13] https://www.dst.dk/analysepdf/32695

items. This GN presents an alternative to the breakdown proposed by the GN C.2 (AnnexIV). The proposed breakdown includes “Trade within a global manufacturing arrangement” as an “Of which” item of the “Goods and services” item and includes “Direct investment” as an “Of which” item under the item “Investment income” for the ownership groups “MNE” and “Controlled from abroad”. As in GN C.2[14], these additional breakdowns are proposed as supplementary items to be reported on a voluntary basis.

B. Clarifying Negative Exports in Merchanting

25. **According to *BPM6*, paragraph 10.44 (a) and 10.45 the purchase of goods for merchanting has to be recorded as a negative credit in the international accounts.** The reason for treating it as a negative export rather than an import is not readily explained neither in the *BPM6* nor the *2008 SNA*. More clarification was requested by compilers on the reasoning of the current treatment.

26. **It is important to recall that, under the former *BPM5* and *1993 SNA*, the trade margin derived from “merchanting” was recorded as an export of services in net terms by the economy where the merchant resides.** No external flow of goods was recorded in that economy notwithstanding that there is a change of ownership for those goods concerned. As this recording was a clear deviation of the basic change of ownership principle, it was decided that, under the *BPM6* and the *2008 SNA*, “merchanting” activities should be recorded under goods with both gross and net values shown, with net amounts included in the goods aggregates.

27. **The idea to follow the change of ownership principle is also expressed by paragraph 10.43 in the *BPM6*: “Goods under merchanting are recorded in the accounts of the owner in the same way as any other goods it owns.”** However, from this, it is still not clear why a net recording in the aggregates was preferred over gross reporting. An argument in favor of net recording is given by the *GMGP* (paragraph 10.16) stating that “…a net recording of merchanting of goods in the balance of payments is particularly motivated by the possible existence of speculative trade (gold, grain) and the huge expansion of imports and exports that may result from…” gross recording.

28. **However, it could be argued that commodity trading usually takes place via (financial) derivatives rather than the exchange of the underlying commodities.** Therefore, inflation of export and import figures due to arbitrage should be negligible, hence the gross recording should be favored. Other reasons may also play a role, such as the fact that the margin earned by merchants can be seen as a service in the country of the merchant (see *2008 SNA*, paragraph A3.158): “The *2008 SNA* recommends that goods acquired by global manufacturers, wholesalers and retailers and those cases of commodity dealing being settled in the commodity should be recorded as negative exports on acquisition and positive exports on disposal. The difference between the two appears in exports of goods but appears as the production of a service in the merchant’s economy, analogous to trade margins applied to domestically traded goods.” Expressed in another way, the recording of the acquisition and sale of goods as negative and positive credits under “net exports of goods under merchanting” keeps the continuity with

[14] During December 2021 – January 2022, the Direct Investment Task Team (DITT) conducted a survey on the Greenfield Investment and Extension of Capacity, Statistical Definition of MNE, Investment Income by Ownership, and Harmonizing DI Statistics with Statistics on AMNE Statistics and FATS. A summary outcome of the common topic is covered by GN C.2.

the former service item (merchanting) while simultaneously adhering to the conceptual rule of the gross recording of imports and exports of goods.

29. **Furthermore, goods under merchanting are recorded only for the merchant's economy of residence.** For the other countries, the export or import should be classified in the customs documents of these countries as general merchandise, not differently than any other export or import. Treating the purchase of goods for merchanting as a negative export assures a global balance of the accounts. The team (proposing the current treatment) recognizes the existing challenges posed by this recording and the potential bilateral asymmetries generated in the overall trade. Nevertheless, if these purchases were considered as imports and exports in the merchant's country, the global flows of the traded goods would be double counted.

30. **The above discussion makes it clear that no a single explanation was the reason for the current treatment, but a number of considerations.** This is best summarized in an email exchange cited here from the IMF's Committee on Balance of Payments Statistics Meeting (BOPCOM) paper 06/31 "*BPM5* Update: Goods for Processing and Merchanting" discussed at BOPCOM in October 2006 in Frankfurt reporting from the AEG: "There was considerable discussion leading up to this agreement among AEG members, as the various issues that were raised in the paper were debated in some depth. 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".

C. Merchanting of Services

31. **Merchanting of services is not conceptualized in the *2008 SNA* and the *BPM6*.** However, merchanting of services is mentioned in *BPM6* paragraph 10.160 in the context of subcontracting.[15] While *BPM6* does not provide a clear definition of subcontracting, the arrangement is likened to the concept of "outsourcing". More clarity comes from paragraph 137 of the *ISIC Rev. 4*. Here, the term outsourcing is also used as a synonym of subcontracting: "Outsourcing is a contractual agreement according to which the principal requires the contractor to carry out a specific production process". It becomes clear from the ISIC that outsourcing/subcontracting cover a wide range of arrangements, including (a) cases where the principal completely sub-contracts the production process/service delivery; and (b) cases where only a part of the production process is subcontracted. In other cases, several parts are subcontracted and bundled by the principal before selling them to the consumer. A well-known example is the case of tour operators, which are selling travel packages. However, this is not discussed here, as travel packages are covered by GN *C7 Treatment of travel packages, health-related travel, and taxes and fees on passengers' tickets*.

32. **In all cases above, *BPM6* recommends the gross recording of the transactions.** It is argued in paragraph 10.160 of the *BPM6* that this treatment is applicable because it is assumed that the arranger buys and sells the services. A quite similar view is reflected in the activity classification of a principal in *ISIC Rev. 4* (paragraph 142). It is stipulated that in all cases of outsourcing of services—including the complete production—the principal is classified as if it is carrying out the production process itself (i.e.,

[15] The *Manual on Statistics of International Trade in Services 2010 (2010 MSITS)* mentions service merchanting in paragraph 3.62.

according to the appropriate service industry and not in section G (Wholesale and retail trade) like a merchant). However, without reverting the *BPM6* guidance, the *Globalization Guide* (Chapter 6) and the *GMGP* (Chapter 10) both recognize the issue of merchanting of services as an area for future work and open the door to a possible change in the recording standards.

33. **Building on the above-mentioned literature, this GN questions whether the currently recommended treatment for subcontracting/outsourcing/services merchanting is appropriate in both cases.** It is using two simplified scenarios (a) and (b) to illustrate the lines of reasoning.

Case (a): Full Outsourcing

34. **This case comes closest to the idea of "merchanting of services".** The crucial question with regard to "service merchanting" is if it is adequate to view the economic relation of the counterparts in the case of outsourcing/subcontracting and "service merchanting" as identical, thus justifying a similar treatment? It can be argued from the definition given in the *ISIC Rev. 4* that outsourcing/subcontracting is different from what is defined as merchanting in the case of goods[16] by the relevant international standards. Subcontracting is related to a bilateral relationship between the principal and a contractor. The relation between them is in most cases oriented towards a longer-term cooperation, where the principal will most often maintain a direct contact with the customer and carry the risk and responsibility of supplying the service. In contrast, merchanting is a trilateral relationship where the intermediary, the producer and the consumer together form a kind of triangle of service-related transactions in which the involvement of the intermediary in the provision of the service is quite limited (see Figure 1 below). For this reason, "service merchanting" should not be seen in the same way as subcontracting.

35. **Equally important in this context is that one of the essential conditions which define merchanting (of goods), the change of economic ownership, cannot be applied to services.** From a pure conceptual point, ownership rights and services do not (in general) go together according to the international standards. The *2008 SNA*, paragraphs 6.17 and 6.21 clearly state that services "are not separate entities over which ownership rights can be established. They cannot be traded separate from their production". Paragraph 10.8 of the *BPM6* and Box I.1 of the *MSITS 2010* echoes this definition.

36. **As the production of a service generally coincides with its consumption, it can be concluded from the current rules that a service cannot be traded like a good.** The service is always directly delivered from the producer to the consumer. This view is supported by paragraph A 5.4 of the *BPM6 Compilation Guide* which stipulates that for compiling balance of payments statistics by partner country, the partner attribution should be based on the economy of residence of the provider and the recipient of the service. The time of recording is the time the service is provided (*BPM6*, paragraph 3.47). It follows from the above that from a pure conceptual view following the current standards, services cannot be traded in the same way as goods and "pure" merchanting transactions cannot involve services.[17]

37. **Nevertheless, transactions in which an intermediary arranges the supply of a service without being engaged in the actual provision of the service do exist in practice.** Such transactions could be assimilated to those defined in *BPM6* paragraph 3.10, when "one unit (an agent) arranges for a

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[16] Goods never enter the economy of the merchant and the goods are not transformed.

[17] Except for some knowledge-based products, which are storable like software or blueprints.

transaction to be carried out between two other units in return for a fee from one or both parties to the transaction". The recommended treatment in these cases is to record in the accounts of the agent only the fee charged for the facilitation of the services rendered.

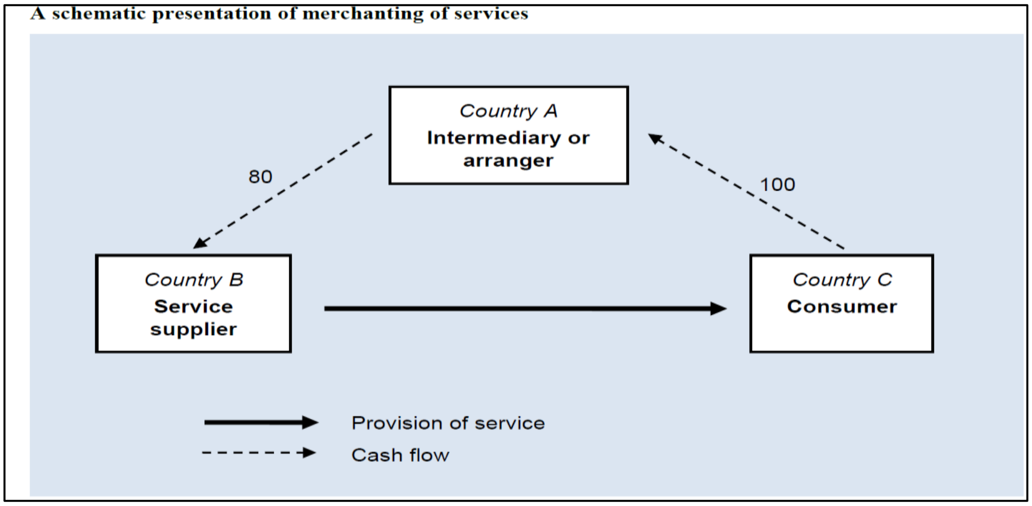
38. **Importantly, the services intermediated by Digital Intermediation Platforms (DIPs) would naturally fall under this category.** Provisional guidance on the treatment of these transactions implies that DIPs never acquire ownership of the goods and services they intermediate, and therefore only the intermediation fees should be recorded in the balance of payments (OECD-WTO-IMF *Handbook of Digital Trade*, section 5.2). However, this refers only to explicit fees while, in practice, there could be implicit charges in both digital and conventional intermediation activities.[18]

39. **In the case of implicit intermediation fees, the difference between the value of the service acquired and the value of the service sold would constitute the basis for the recording.** This difference would reflect the fee obtained by the intermediary, which, in practice, behaves as an agent even when not working for an explicit commission (*GMGP*, paragraph 10.15 and 10.34). In addition, as services are in general not separate items over which ownership rights can be established, the difference stemming from purchase and resale and the explicit fee of an agent can, in practice, be considered the same thing. **Therefore, the services intermediated without involvement could be recorded under trade-related services as a supplementary "of which" item,** and not (like subcontracting) under the relevant service category. This treatment, which is in line with the line of argument provided in the *Globalization Guide* (paragraph 6.37), would acknowledge that the arranger neither produces nor consumes the service. Users would be better informed of the real character of these flows compared to the current gross recording. An illustration of the recommended recording for the revised *Extended Balance of Payments Services Classification 2010* (*EBOPS 2010/* (*MSITS 2010*)) following the new breakdown of services as proposed by the GN C.6 *Trade in Services Classifications* is provided in Annex V.

40. **However, the suggested recording has a disadvantage when it comes to the practical question on how to collect the relevant information in the case of implicit fees.** From Figure 1, it becomes clear that compilers have to consider both the monetary flows and the service provision. The chart shows that a service is provided by Country B directly to Country C. In contrast, the financial flows consider the role of Country A as an intermediary. Particularly, if the compilation is done based on firms' financial records, Country B may record an export to A (rather than to C) and Country C may record an import from A (rather than from B). Only Country A knows the actual (implicit) intermediation fee.

[18] Moreover, the arranger (intermediary) can charge fees to the consumer, to the actual service provider, or to both parties, either explicitly or implicitly. Future guidance on this should also be considered.

Figure 1. A schematic Presentation of Merchanting of Services



Source: Guide to Measuring Global Production.

41. **Both countries, B and C, require additional information for a proper recording.** To determine the actual direction of the service provision, it can be assumed that countries, at least following the guidance provided by the *BPM6 Compilation Guide* (paragraph A 5.4), already tackle the problem of divergent financial and real flows in the context of country allocation in their guides for the reporters. In addition, as for the provision of service, both the producer and the consumer must come together and know that a third party is involved and a transaction with the agent has to be recorded separately. Certainly, the amount of the implicit fee is unclear for either. Therefore, the compilers would have to make some overall adjustments, possibly based on reports of agents or intermediaries resident in the reporting country. In case surveys are used to collect trade in service data, a separate question or transaction code could also be considered to distinguish these triangular transactions.

42. **Finally, although the discussion in the former paragraphs focuses on services where production and consumption coincide, the suggested concept could also be applied to services where production and consumption do not occur at the same time (so called knowledge-capturing products like IPP, information, music, etc.** (see *2008 SNA*, paragraph 6.22)). Due to their dual character, these services can be traded like goods and ownership rights could be established. In consequence, for these services/goods it is possible to conclude that they fulfil the criteria of merchanting and should be recorded according to paragraph 26.21 of the *2008 SNA* or paragraph 10.44 of *BPM6* (i.e., overall, on a net basis). Such a treatment, however, would require a fundamental discussion on the delineation of goods and services in all related statistics, which would go far beyond the scope of this GN. The suggested solution above would therefore ensure a common net treatment of all services, assuming that services are always intermediated and not traded.

Case (b): Partial Outsourcing

43. **When only part of the production process is subcontracted, or, more generally, when the principal maintains control over the production process (e.g., by ensuring its quality) and keeps a relationship with the client, the gross recording of the transactions in the relevant service category remains appropriate.** Such treatment is justified given the decisive overseeing role of the principal in the transformation process. For example, the complexity of large software development

projects can be such that dedicated software developers must be subcontracted to take care of particular parts of the project. The principal is responsible for bringing the different parts (its own- and third-party developments) together and takes the full responsibility of the final product sold to its customer. Under such conditions, the principal cannot be considered to act as an intermediary, and, therefore, the purchase of software development services needs to be recorded as an intermediate consumption in the production process.

SECTION II: OUTCOMES

A. Goods traded within a global manufacturing arrangement and factoryless goods producers (FGPs)

44. **The activities related to FGP should be classified as manufacturing.** The reasoning is that the inputs related to IPP can be seen as equivalent to material inputs, which means that the production of FGPs is similar to that of companies with processing arrangements and are seen as manufacturing activities instead of wholesale activities. This is also consistent with the TT-ISIC (2021) recommendation to classify FGPs within the manufacturing sector. This would imply that the principal of an FGP arrangement will be purchasing goods (intermediate goods in the NA) from contractors and selling goods instead of distribution services. Transactions involving final goods in the global manufacturing arrangements should thus be recorded gross (output of the principal includes the input of the contractor and the value of the embedded IPP). This is contrary to the current net recording of FGP transactions. The recommendation to record the final goods under FGP arrangement gross implies a slight change to *BPM6* Table 10.2, namely line "*Goods sold abroad after processing in other countries*" should be expanded to include FGP-type arrangement and be labeled "*Goods sold abroad after processing and FGP-activity in other countries*".

45. **The output of the contractor in a global manufacturing arrangement should be recorded as a good when the contractor takes ownership of the material inputs (*where IPP and the management of the production process are provided by the principal*—FGP type arrangement), and as a service when the material inputs are owned by the principal (typical processing arrangement).**

46. **Further, the definition of FGP activity should not be dependent on whether or not the contractor responsible for the transformation is an affiliated enterprise or not.** The activity of the principal engaged in a FGP type arrangement should be classified as undertaking manufacturing activity, regardless of any affiliation with the contractor responsible for transforming the goods. This is also consistent with the TT-ISIC (2021) recommendation.

47. **Finally, the balance of payments standard component of goods should be adjusted to cover the transactions related to goods traded as part of a global manufacturing arrangement as a distinct item.** Two options where the additional component(s) related to global production arrangements are recorded as supplementary items under the goods were proposed. It was agreed that option 2 be adopted because (i) this option would provide a better picture of global manufacturing arrangements (provided that the full supplementary breakdown is compiled) and (ii) a principal buying material inputs from abroad and then reselling them to the contractor without the materials being present in the principal's economy would be fitting the definition of a merchanting transaction, implying that a shift from

merchanting to general merchandise for these transactions is avoided. The drafting team recommends option 2 be adopted as the majority considered that (i) this option would provide a better picture of global manufacturing arrangements (provided that the full supplementary breakdown is compiled) and (ii) a principal buying material inputs from abroad and then reselling them to the contractor without the materials being present in the principal's economy as fitting the definition of a merchanting transaction.[19]

48. **Annex II proposes a decision tree—from the viewpoint of the principal — to help compilers identify whether the transaction is a processing-type arrangement, FGP-type arrangement, or a merchanting-type arrangement.** Key to determining how to record the transaction is: (1) if the final good is transformed outside the country of the principal; (2) if the principal supplies most or all of the material inputs; and (3) if the principal supplies significant IPP to the production of the final good, without charging for the right to use the IPP. Annex III updates the GMGP typology for FGP-type arrangements with the recommendations of this GN.

B. Clarifying Negative Exports in Merchanting

49. **This GN clarifies that, for the current treatment, not a single explanation was causative.** The treatment is rather a **compromise** among experts, 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. In conclusion, no changes to the current *BPM6* recording are recommended but complementary explanations should be included in the relevant manuals.

50. **However, comments from the CATT and GZTT members suggested additional changes on different grounds.**[20] The drafting team of this GN supports these suggestions unanimously, but also agrees that they go beyond the scope of the current GN. The idea should be taken up again in the context of the drafting the updates of the current standards.

C. Merchanting of Services

51. **This GN has clarified that the current mention of merchanting of services in the context of subcontracting/outsourcing (*BPM6,* paragraph 10.160) is misleading because the latter refers to a bilateral relationship between the principal and a contractor, which is oriented towards a longer-term cooperation.** The idea of “merchanting of services”, in contrast, is a trilateral relation (i.e., the intermediary, the producer, and the consumer together form a kind of triangle of service-related

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[19] The form of the material goods does not substantially change (i.e., no change in HS code)

[20] Foremost, the inclusion of the so called “inverse merchanting”, which occurs whenever a merchant resident in Country A purchases goods from a resident of Country B and resells these goods to another resident of Country B without the goods leaving Country B. In such cases, the goods transaction in B, which are not recorded in *International Merchandise Trade Statistics Compilers Manual* (*IMTS*) as goods, as they are not moving across the border, should be separately identified, and included in the balance of payments. More generally, it was proposed that *BPM6*, Table 10.2 (reconciliation between *IMTS* and balance of payments) should be enhanced to cover all goods transactions in the reporting country changing ownership between a resident and a non-resident without crossing the border. Furthermore, as merchanting is linked to *IMTS* recording in the country of the seller and the final buyer, and their (customs) records usually do not provide the geographical information about the country of purchase/sale (but instead the country of origin/destination), a correction of the geographical attribution is necessary to reflect the change of ownership principle. Therefore, *BPM6* Box 10.1 should explicitly mention this correction under the example of the recording of merchanting.

transactions). Further, and more important, the note came to the conclusion that “merchanting of services”, from a pure conceptual view, is impossible as services cannot be traded in the same way as goods and “pure” merchanting transactions cannot involve services because no ownership rights can be established on services according to the current international standards.

52. **Acknowledging that the production of a service generally coincides with its consumption, services are always directly delivered from the producer to the consumer.** Therefore, services can only be intermediated by a third person against a fee. The suggested treatment of this intermediation service is to assimilate them to those defined in *BPM6* paragraph 3.10, when “one unit (an agent) arranges for a transaction to be carried out between two other units in return for a fee from one or both parties to the transaction”. This treatment is suggested for cases where explicit or implicit intermediation fees should be perceived/recorded.

53. **These fees should be recorded under trade-related services, as a supplementary “of which” item in the international accounts of the partner countries.** This treatment acknowledges that the arranger neither produces nor consumes the service, and users would be better informed of the real character of these flows compared to the current gross recording.

OUTCOMES OF THE DISCUSSIONS AT JOINT COMMITTEE AND AEG MEETING

54. **Most members of the IMF Committee on Balance of Payments Statistics and the Advisory Expert Group on National Accounts (AEG) expressed strong support for most of the proposals in the GN**,[21] **except on the treatment of bundled services.** In line with the results of the global consultation, the proposals on Issue A (Goods Traded Within a Global Manufacturing Arrangement and Factoryless Goods Producers (FGPs)) and Issue B (Clarifying Negative Exports in Merchanting) received strong support from the members. The members also supported the first two proposals on Issue C (Merchanting Services), but on the issue of bundled services it was suggested to undertake further research as part of the GN *C.7 Treatment of Travel Packages, Health-Related Travel, and Taxes and Fees on Passengers’ Tickets*. Improvements to the decision tree and further clarification on the FGPs were also suggested. This version of the GN incorporates all those suggestions.

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[21] An earlier version of the GN C.4 presented to the Committee and the AEG can be accessed here.

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Annex I. Goods Traded Within a Global Manufacturing Arrangement

This annex shows the suggested treatment of different global manufacturing arrangements in both the production account (NA) and the balance of payments, using the example of the production of an athletic shoe, taken from the *Guide to Measuring Global Production*.

Table AI.1. Breakdown of Value of the Athletic Shoe	
Material inputs	30
Material inputs, Soles	*10*
Material inputs, Other materials	*20*
Compensation of production workers	20
Compensation of managers for managing production	2
Other purchased services associated with production of the shoe	3
Return on the IPP	30
Compensation of sales workers	15
Purchased services associated with selling the shoe	4
profit on selling the shoe	6
Total value of shoe	110

Case 1: "Processing Arrangement"

- A principal in Country A sends material input (soles and other materials) to a contractor in Country B. The principal retains ownership of the material input and the rights to the IPP during the transformation process.
- The principal instructs the contractor how to assemble the shoe. The contractor transforms the material inputs into an athletic shoe and invoices the principal for contract manufacturing services.
- The principal sells the athletic shoe to a final customer in Country C.

Table AI.1.1. Production Account, Countries A and B		
Proposed ISIC - classification	**Principal/Country A Manufacturer**	**Contractor/Country B Manufacturer**
Output	**110**	**20**
Goods, Athletic shoe	110	0
Contract manufacturing	0	20
Intermediate consumption	**57**	**0**
Material inputs, Soles	10	0
Material inputs, Other materials	20	0
Contract manufacturing	20	0
Other services	7	0
Value added	**53**	**20**
Compensation of employees	17	20
Taxes less subsidies on production and imports	0	0
Gross operating surplus	36	0

Recording in Balance of Payments and International Merchandise Trade Statistics (IMTS)

- For balance of payments, the sale of the athletic shoe is recorded as export of goods for Country A and import of goods for Country C.
- The contract manufacturing is recorded as import of services for Country A and export of services for Country B.

Table AI.1.2. Balance of Payments International Transactions	Country A	Country B	Country C	**Total**
Exports	**110**	**20**	**0**	**130**
Goods	**110**	**0**	**0**	**110**
Goods, Athletic shoe	110	0	0	110
Services	**0**	**20**	**0**	**20**
Services, Contract manufacturing	0	20	0	20
Imports	**20**	**0**	**110**	**130**
Goods	**0**	**0**	**110**	**110**
Goods, Athletic shoe	0	0	110	110
Services	**20**	**0**	**0**	**20**
Services, Contract manufacturing	20	0	0	20

- For the IMTS, the movement and value of goods is recorded at the time of crossing the border. Material inputs are moved from Country A to Country B at the value of 30, and the final goods are moved from Country B (on behalf of principal in Country A) to Country C at the value of 50.

- The material inputs sent from Country A to Country B are not included in the balance of payments for either of the two countries since there is no change of ownership.

- The final goods sent from Country B to Country C are not included in the balance of payments exports of Country B (but in the balance of payments exports of Country A). The imports in Country C are included in balance of payments.

Table AI.1.3. ITGS and Transition to Balance of Payments	Country A	Country B	Country C	**Total**
ITGS Exports of goods	*30*	*50*	*0*	*80*
Adjustment for material inputs sent	-30	0	0	-30
Adjustment related to goods sent directly from contractor to customer	110	-50	0	60
Balance of Payments, exports of goods	**110**	**0**	**0**	**110**
ITGS imports of goods	*0*	*30*	*110*	*140*
Adjustment for material inputs received	0	-30	0	-30
Balance of Payments, imports of goods	**0**	**0**	**110**	**110**

Case 2: "FGP Arrangement"

- A principal in Country A retains ownership of the rights to the IPP during the transformation process. The contractor supplies all material inputs, which it purchases in Country B.

- The principal instructs the contractor how to assemble the shoe. The contractor transforms the material inputs into an athletic shoe and invoices the principal for contract manufacturing (including the expenses for material inputs).

- The principal sells the athletic shoe to a final customer in Country C.

Table AI.2.1. Production Account, Countries A and B		
Proposed ISIC- classification	**Principal/Country A Manufacturer**	**Contractor/Country B Manufacturer**
Output	**110**	**50**
Goods, Athletic shoe	110	0
Contract manfuacturing	0	50
Intermediate consumption	**57**	**30**
Material inputs, Soles	0	10
Material inputs, Other materials	0	20
Contract manufacturing	50	0
Other services	7	0
Value added	**53**	**20**
Compensation of employees	17	20
Taxes less subsidies on production and imports	0	0
Gross operating surplus	36	0

Recording in Balance of Payments and International Trade in Goods Statistics (IMTS)

- For balance of payments, the sale of the athletic shoe is recorded as export of goods for Country A and import of goods for Country C.
- The purchase of contract manufacturing is recorded as import of goods for Country A and export of goods for Country B.

Table AI.2.2. Balance of Payments International Transactions	Country A	Country B	Country C	**Total**
Exports	**110**	**50**	**0**	**160**
Goods	**110**	**50**	**0**	**160**
Goods, Athletic shoe	110	0	0	110
Goods, Contract manufacturing	0	50	0	50
Imports	**50**	**0**	**110**	**160**
Goods	**50**	**0**	**110**	**160**
Goods, Athletic shoe	0	0	110	110
Goods, Contract manufacturing	50	0	0	50

- For IMTS the movement and value of goods is recorded at the time of border passage. The final goods are moved from Country B at the value of 50 and with the value of 110 to Country C.
- The sale of goods to Country C have to be added to the export of Country A.
- The purchase of goods from Country B have to be added to the import of Country A.

Table AI.2.3. ITGS and transition to Balance of Payments	Country A	Country B	Country C	**Total**
ITGS Exports of goods	*0*	*50*	*0*	*50*
Adjustment for goods sold after manufacturing abroad	110	0	0	60
Balance of Payments, exports of goods	**110**	**50**	**0**	**160**
ITGS imports of goods	*0*	*0*	*110*	*110*
Adjustment for goods purchased after manufacturing abroad	*50*	*0*	*0*	
Balance of Payments, imports of goods	**50**	**0**	**110**	**160**

Case 3: "FGP Arrangement Where the Principal Supplies Materials"

- The principal in Country A purchase material inputs (Other materials) in Country C and sells this, along with material inputs, soles (acquired in Country A) to the contractor in Country B. The principal retains ownership of the rights to the IPP during the transformation process (but not ownership of the material inputs).
- The principal instructs the contractor how to assemble the shoe. The contractor transforms the material inputs into an athletic shoe and invoice the principal for contract manufacturing (including expenses for material inputs).
- The principal sells the athletic shoe to a final customer in Country C.

Table AI.3.1. Production Account, Countries A and B		
	Principal/Country A	**Contractor/Country B**
Proposed ISIC- classification	**Manufacturer**	**Manufacturer**
Output	**110**	**50**
Goods, Athletic shoe	110	0
Net gain from trade in material inputs*	0	0
Contract manufacturing	0	50
Intermediate consumption	**57**	**30**
Material inputs, Soles	0	10
Material inputs, Other materials	0	20
Contract manufacturing	50	0
Other services	7	0
Value added	**53**	**20**
Compensation of employees	17	20
Taxes less subsidies on production and imports	0	0
Gross operating surplus	36	0

* This item is calculated as the revenue from trade in material inputs minus the purchases of material inputs.

Recording in Balance of Payments and International Trade in Goods Statistics (IMTS)

- For balance of payments, the sale of the athletic shoe is recorded as export of goods for Country A and import of goods for Country C.
- The trade with material inputs bought abroad (other materials) will be treated as merchanting and the material input coming the economy of the principal (soles) will be recorded as exports. The material goods are recorded as import for Country B. The purchase of material inputs (Other materials) from Country C is recorded as export of goods from Country C.
- The purchase of contract manufacturing is recorded as import of goods for Country A and export of goods for Country B.

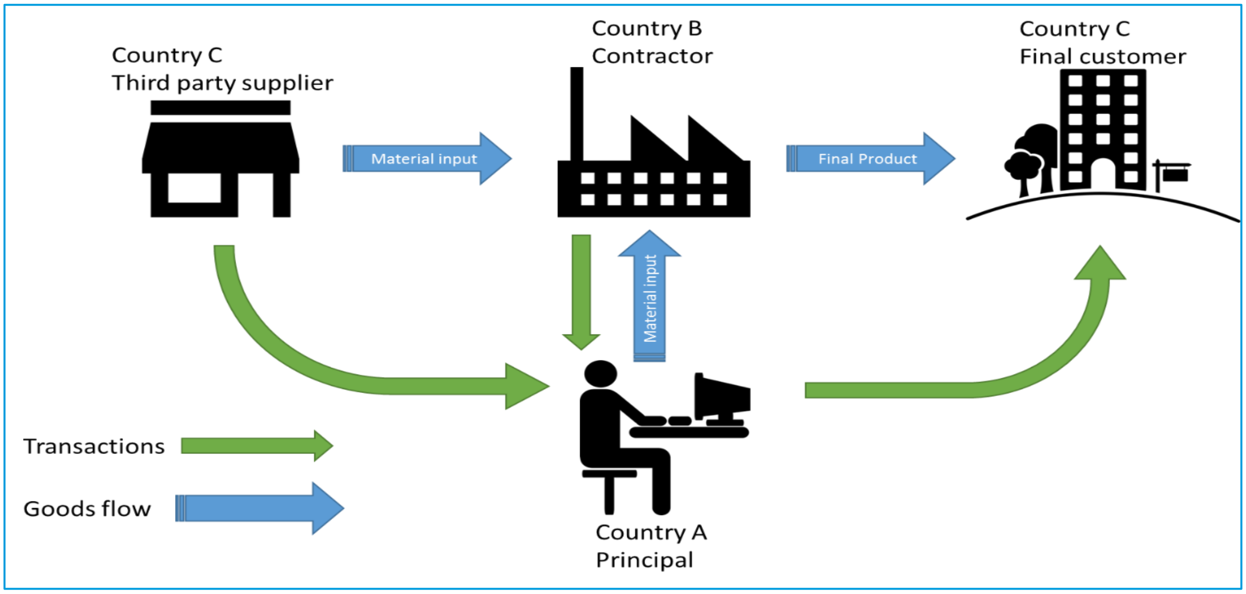
Table AI.3.2. Balance of Payments International Transactions	Country A	Country B	Country C	Total
Exports	**120**	**50**	**20**	**190**
Goods	**120**	**50**	**20**	**190**
Goods, Athletic shoe	110	0	0	110
Goods, Net merchanting	0	0	0	0
Goods, sales of Other materials	20	0	0	20
Goods, cost of Other materials	-20	0	0	-20
Goods, Material inputs (Soles)	10	0	0	10
Goods, Material inputs (Other materials)	0	0	20	20
Goods, Contract manufacturing	0	50	0	50
Imports	**50**	**30**	**110**	**190**
Goods	**50**	**30**	**110**	**190**
Goods, Athletic shoe	0	0	110	110
Goods, Material inputs (Soles)	0	10	0	10
Goods, Material inputs (Other materials)	0	20	0	20
Goods, Contract manufacturing	50	0	0	50

- For IMTS the movement and value of goods is recorded at the time of border passage. The final goods are moved from Country B at the value of 50 and with the value of 110 to Country C. The material inputs (soles) are moved from Country A to Country B with the value of 10 and the material inputs (other materials) are moved from Country C to Country B with the value of 20.
- The sale of goods after manufacturing has to be added to the export of Country A.
- The purchase of goods after manufacturing has to be added to the import of Country A.
- The net export on material input purchased abroad for contract manufacturing abroad is added to the export of Country A (zero in this case).

Table AI.3.3. ITGS and transition to Balance of Payments	Country A	Country B	Country C	**Total**
ITGS Exports goods	*10*	*50*	*20*	*80*
Adjustment for net export of material goods purchased abroad for contract manufacturing abroad	0	0	0	0
Adjustment for goods sold after contract manufacturing abroad	110	0	0	110
Balance of Payments, exports of goods	**120**	**50**	**20**	**190**
ITGS imports goods	*0*	*30*	*110*	*140*
Adjustment for goods purchased after contract manufacturing abroad	50	0	0	*50*
Balance of Payments, imports of goods	**50**	**30**	**110**	**190**

Figure AI.1 and Table AI.4 below show the flows of goods and transactions typical for a processing arrangement and their recording in the balance of payments. Figure AI.2 and Table AI.5 show the same for a FGP type arrangement. Another specific aspect of the FGP type arrangement relates to the goods transactions for the delivery of the material inputs. Case 3 above shows an example where the principal is acquiring all the material inputs, but these are sold to the contractor before their transformation. One could argue that transactions, such as those undertaken before the transformation, can be treated as distinct from the global production arrangement, and should thus be recorded as regular merchandise trade (or merchanting and merchandise trade as in Case 3). Nonetheless, the drafting team believes that such transactions are part of the FGP type arrangement and could be recorded separately as distinct item(s), in order to provide the needed information for compilers and users. This would also help distinguishing the global manufacturing arrangements and support policy analyses.

Figure AI.1. The Flows of Goods and Transactions in a Processing Type Arrangement

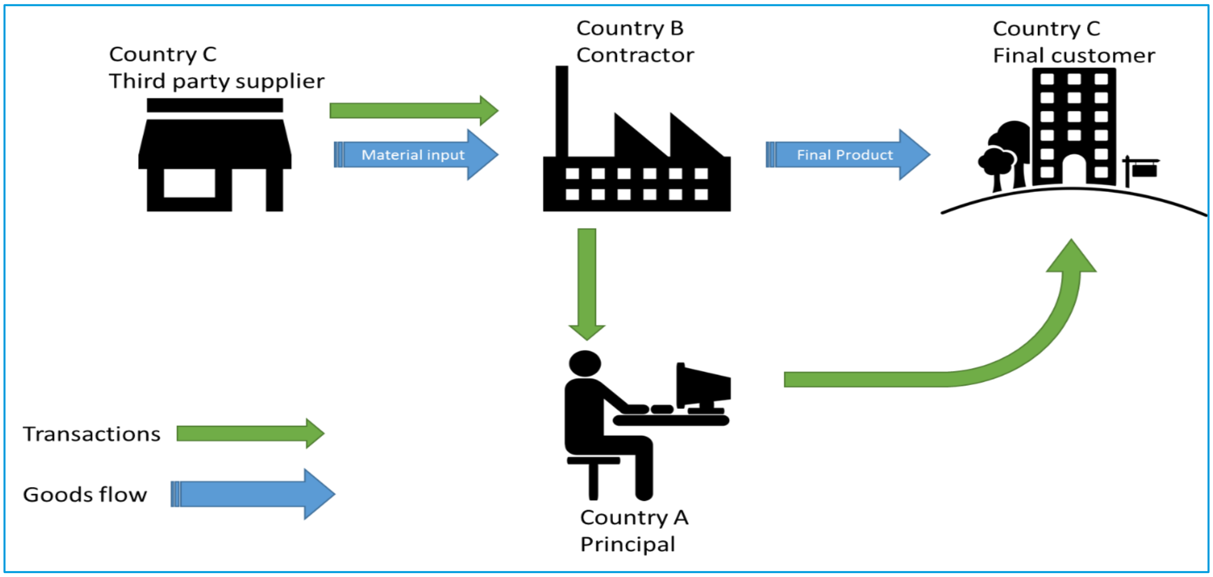


Source: Created by the drafting team using Internet clipart

Table AI.4. Balance of Payments Transactions in a Processing Arrangement

Table 2. 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	

Figure AI.2. The Flows of Goods and Transactions in a FGP Type Arrangement



Source: Created by the drafting team using Internet clipart

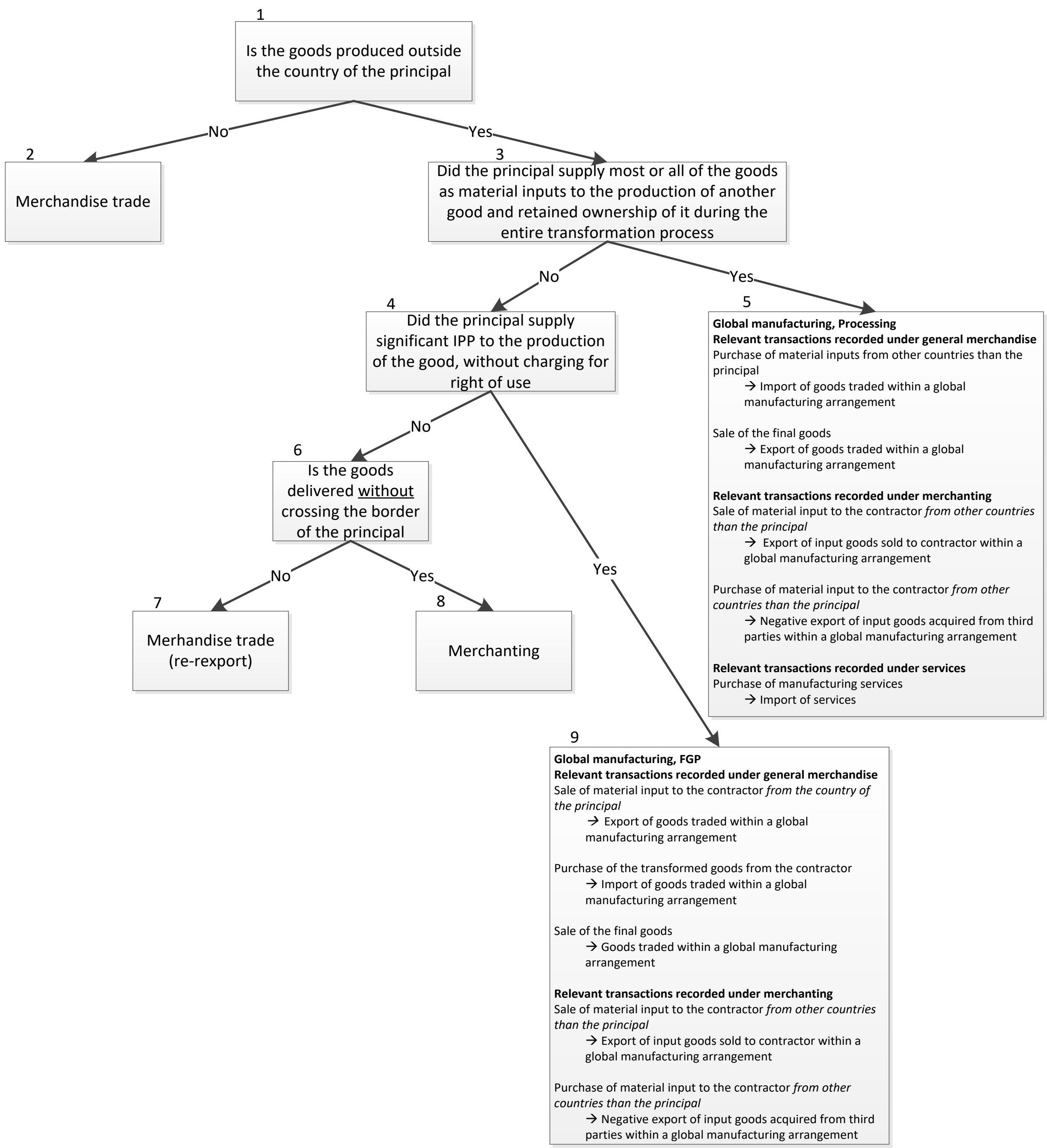
Table AI.5. Balance of Payments Transactions in a FGP Type Arrangement

Table 3. 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	

Annex II. Decision Tree

In the chart below, the compiler in the economy of the principal can identify how a sale to a non-resident customer should be recorded. Please note that global manufacturing arrangements can also occur if the customer is a resident unit, and the chart below cannot be used to identify how the relevant transactions should be treated for those cases.

Decision tree for resident principal selling goods to non-resident customer



Source: Team's design

Annex III. Typology of global production arrangements and international transactions involved, updated with new recommendations

Description of production process from point of view of domestic entity which represents the principal	Entities involved	Economic activity	ISIC industry	Economic ownership of material inputs	Rights to use Intellectual property	Management of production process	Type of output	International transactions related to production process
Processing arrangement	Domestic (Principal)	Manufacturing	Manufacturing (Section C)	Y	Y	Y	Goods	Record processing fee as import of manufacturing services. Record the output of final manufactured goods as exports of goods if sold abroad. Record materials sent for processing as imports of goods if purchased abroad and ownership is retained Record materials purchased abroad and subsequently sold to foreign contractor as net exports of goods under merchanting Exclude materials sent for processing from exports of goods if purchased in the domestic economy and ownership is retained. Exclude the output of manufactured goods from imports of goods if sold in the domestic economy.
	Foreign contractor	Manufacturing service provider	Manufacturing (Section C)				Services	Record processing fee as exports of manufacturing services. Record export of materials if bought in the economy of the contractor and owned by the principal. Record import of materials if purchased by the contractor from abroad and the contractor retains ownership Exclude materials received for processing without change of ownership from imports of goods if

								shipped from an economy different from that of the contractor. Exclude the output of manufactured goods from exports of goods. Record imports of goods if sold in the economy of the contractor.
Merchanting arrangement	Domestic	Merchanting	Wholesale and retail trade (Section G)			N	Services (Margin on goods)	Record the purchase of a good under merchating as a negative export, and the subsequent sale as a positive export of goods. The difference between the two represents the trade margin as output of the merchant. If the physical form of the goods is changed during the period the goods are owned, as a result of manufacturing services performed by other entities, then the goods transactions are recorded under general merchandise rather than merchanting.
	Foreign Supplier	Manufacturing	Manufacturing (Section C)	Y	Y		Goods	Record the output of the supplier as an export of goods
Factoryless goods production arrangement	Domestic (Principal)	Manufacturing	Manufacturing (Section C)		Y	Y	Goods	Record the purchase of transformed goods from foreign contractor as imports of goods Record the output of final manufactured goods as exports of goods if sold abroad. Record materials purchased abroad and subsequently sold to foreign contractor as net exports of goods under merchanting Record materials if purchased in the principal's economy and subsequently sold to foreign contractor as exports of goods
	Foreign Contractor	Manufacturing	Manufacturing (Section C)	Y			Goods	Record the output of the supplier as an export of goods

Annex IV. Alternative Proposed Presentation to GN C.2 *Goods, Services, and Investment Income Accounts by Enterprise Characteristics* Identifying Trade within a Global Production Chain

	Encouraged	Encouraged					
	Total	By trading partner		By product / service		By industry	
		Top 5 partners	Rest of the world	Top 5 products	The other products	Top 5 industries	The other industries
(S)TEC Balance of Payments Statistics							
1.A Export of goods and services							
Of which Trade within a global manufacturing arrangement							
By enterprise's ownership							
Domestically controlled							
MNE							
Other							
Controlled from abroad							
Unknown							
Export of goods and services, total							
1.A.a Goods, BOP basis							
By enterprise's ownership							
Domestically controlled							
MNE							
Other							
Controlled from abroad							
Unknown							
By enterprise's size							
SME							
Independent							
Part of a group							
Large enterprises							
Unknown							
1.A.b Services, BOP basis							
By enterprise's ownership							
Domestically controlled							
MNE							
Other							
Controlled from abroad							
Unknown							

By enterprise's size				
SME				
Independent				
Part of a group				
Large enterprises				
Unknown				
1.B.2 Receipts of investment income				
By enterprise's ownership				
Domestically controlled				
MNE				
Of which 1.B.2.1 Direct investment				
Other				
Controlled from abroad				
Of which 1.B.2.1 Direct investment				
Unknown				
By enterprise's size				
SME				
Independent				
Part of a group				
Large enterprises				
Unknown				

	Encouraged	Encouraged					
		By trading partner		By product / service		By industry	
	Total	Top 5 partners	Rest of the world	Top 5 products	The other products	Top 5 industries	The other industries
(S)TEC Balance of Payments Statistics							
1.A Import of goods and services							
Of which Trade within a global manufacturing arrangment							
By enterprise's ownership							
Domestically controlled							
MNE							
Other							
Controlled from abroad							
Unknown							
Import of goods and services, total							
1.A.a Goods, BOP basis							
By enterprise's ownership							
Domestically controlled							
MNE							
Other							
Controlled from abroad							
Unknown							
By enterprise's size							
SME							
Independent							
Part of a group							
Large enterprises							
Unknown							
1.A.b Services, BOP basis							
By enterprise's ownership							
Domestically controlled							
MNE							
Other							
Controlled from abroad							
Unknown							
By enterprise's size							
SME							
Independent							

Part of a group				
Large enterprises				
Unknown				
1.B.2 Expenditures of investment income				
By enterprise's ownership				
Domestically controlled				
MNE				
Of which 1.B.2.1 Direct investment				
Other				
Controlled from abroad				
Of which 1.B.2.1 Direct investment				
Unknown				
By enterprise's size				
SME				
Independent				
Part of a group				
Large enterprises				
Unknown				

Annex V. Example of Recording of the Intermediation of Services in the Revised *EBOPS*

Consistent with the proposed breakdown of services made by the GN C.6, the following recording the intermediation of services in the *EBOPS* is suggested in the table below:

Table AV.1. Example of Recording of the Intermediation of Services in the Revised *EBOPS*

<table>
<tr><th>13.1</th><th>SJ34</th><th>Trade-related services</th><th>Comments</th></tr>
<tr><td>13.1.a</td><td></td><td>Trade-related services
of which: transport services</td><td rowspan="3">Covers fees of DIPs intermediating services (in the relevant category); or
the difference between selling and buying values, in case of implicit fees</td></tr>
<tr><td>13.1.b</td><td></td><td>Trade-related services
of which: accommodation services</td></tr>
<tr><td>13.1.c</td><td></td><td>Trade-related services; of which: services n.i.e.</td></tr>
<tr><td>13.1.d</td><td></td><td>Trade-related services
of which: sale of goods</td><td>Covers traditional trade-related services (fees, commissions) + fees of DIPs intermediating goods</td></tr>
</table>