

**I. DIRECT INVESTMENT TECHNICAL EXPERT GROUP (DITEG)
II. OUTCOME PAPER (DITEG) # 21B**

April 8, 2005

- 1. Topic: Various Special Cases: Shipping**
- 2. Issues: See DITEG Issue Paper # 21 (B) by Greece (Statistics Department, Bank of Greece –November 2004)**
- 3. Recommendations:**
 - (i) DITEG agreed on the complexity of the statistical treatment of shipping activities while it recognized the need for clarification on different aspects such as residency, nature of shipping companies' activities, etc. The group accepted that the existing manuals should be clarified about the treatment of shipping companies and recommended that this further clarification should be included to distinguishing between FDI and services.
 - (ii) DITEG stressed the importance of following the principles of the existing system, which would involve clear identification of units involved in shipping activities which are namely the owner and the operator of the ship: it should make clear that the flag of convenience is not relevant:
 - (a) *The owner holds an asset (the ship).*
 - (b) *The operator is effectively involved in shipping activities such as fishing, transporting, etc.*
 - (c) *The flag of convenience is for the legal registration of the ship. The flag is not considered in determining the residency of the owner or operator of the ship.*
 - (d) If the owner and the operator are the same entity, then they comprise a single institutional unit.
 - (e) If the owner and the operator are not the same entity, then they comprise separate institutional units. The owner will typically receive a fee from the operator, reflecting the payment (rent) for the use of the vessel; in this case, the owner is a lessor, and is not a provider of transportation services. The operator of the vessel provides transportation services; it receives revenues for transporting passengers and/or freight, pays wages to crew members (who may be residents of a different economy than the operator), and incurs other transportation-related expenses including port expenditures.
 - (iii) DITEG indicated that the treatment of management offices and business promotion and ticket sales offices would depend upon individual circumstances; in some circumstances, they would qualify for treatment as direct investment enterprises and,

in other circumstances, they would not. In this latter case, some members of DITEG believed that transactions related to these offices should be recorded as international services transactions.

- (iv) DITEG agreed that the starting point of the statistical treatment of shipping is the basic asset/liability principle. Following from that principle, transactions related to branches should meet the criteria to be included under FDI. Distinction should be made between the branches which engage in real economic activities and have income statements, etc. and units that are set up to increase sales of the institutional units that established them but that have no sales of their own, such as ticket sales offices and business promotion offices.
- (v) It was pointed out that determining the residency of shipping companies is often a difficult issue. As noted, the residence of the owner and of the operator are determined independently from the country where the ship is registered (from the country of the flag of convenience), and different types of leasing arrangement may exist that can make it difficult to determine whether the ship is being leased or effectively sold to the institution that operates it.
- (vi) DITEG noted that issues related to complex leasing arrangements and their solutions could be extended to other types of mobile equipment, such as aircraft. DITEG could not fully articulate its recommendations, pending clarification of the criteria for differentiating between financial and operational leases that are still under review in other groups.

4. Rejected Alternatives:

None.

5. Questions for the IMF Committee on Balance of Payments (the Committee) and the OECD Workshop in International Investment Statistics (WIIS)

- (i) *Do the Committee and WIIS agree that recording transactions/positions under FDI related to shipping companies requires further clarifications in the manuals?*
- (ii) *Do the Committee and WIIS agree with the description of institutional units above (under 3- ii)?*
- (iii) *Do the Committee and WIIS agree with the principles indicated under 3 (iv)?*