Early Warning System - Case 3

International restaurant chain

Final methodological assessment - prepared by the EWS secretariat with the approval of relevant EWS network members

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Company D is a restaurant chain with restaurants all over the world. It operates its own restaurants but it also franchises its name and formula to others.

It has set up a holding company, "D Europe Franchising" in country A. This company holds the European franchising rights, these include brand development and positioning, advertising and marketing, restaurant design and specifications, restaurant re-imaging, food and menu development, supply chain, operating platform and systems, etc.. Note that these rights are not recognized as assets by ESA 2010. The holding company employs very few staff. D Europe Franchising is an SPE that is recognised in the national accounts of country A as an institutional unit because it is owned by a non-resident unit.

Any restaurant in Europe that uses the D franchise pays royalties to this holding company. In ESA 2010 these are seen as payments for services (para 3.173(l)). Hence, D Europe Franchising exports franchising services to all European countries where D has franchised restaurants.

The franchising income is taxable in country A. In effect, all of D's European franchise turnover is recorded in country A and the associated value added contributes to its GDP. The actual turnover of the individual restaurants is reported in company accounts and to business statistics surveys, and their income taxed in their respective countries' of residence. Being a foreign-owned company, the final profits flow out of country A, so that the contribution to GNI is more limited than that to GDP.

At a certain moment company D decides to relocate the holding company to country B. No other changes are made to the various arrangements. The royalty payments from European countries are now made to country B. Any value added previously generated in country A will now be recorded in country B, as is the contribution to GNI. This treatment, which is applied in business statistics and in national accounts, has been agreed with concerned countries.