

# The Missing Link: Intangible Assets, Contractual Agreements and the Transfer Pricing Puzzle

John Callum Wilkie

Department of Geography, McGill University, Montréal (Québec) Canada

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Supervisor: Professor Sébastien Breau

Globalization and changes in the nature of international business have had profound effects on the way global firms operate. Specifically, evolving technology and producer 'capabilities,' consumer demands, resource availability and a series of other factors changed both what products, and increasingly, services were produced, as well as how they were produced. One of the implications of this evolution is the increased role played by intangible productive assets – which include: patents, trademarks, production processes and market or industry expertise. In light of this, the aims of this thesis are two-fold. *First*, I seek to examine the absolute and relative growth of royalty and license fee payments (as a reflection of the shifting of intangible assets) into the United States between 1988 and 2010 as well as the associated geographic trends and patterns. The *second aim* is to understand transfer pricing practices and more specifically their relationship to intangible productive assets. The study concludes that there have been significant absolute and relative increases in royalty and license fee payments into the U.S. since 1988. Furthermore, certain regions and countries emerge as primary recipients of intangible property from the U.S. The novelty of the analysis carried out in this research is drawing a connection – the missing link – between the symptoms of what we will see are profit shifting activities that have the effect of separating profits from the regions in which productive activities occur and resources are consumed (resulting in the depletion of national tax bases relied on by countries to fund economic development) and the root causes – the processes of globalization, the changing nature of business and the ways firms operate. Avenues for further research are provided in the conclusion.

## ***Total (related and unrelated) international royalties and license fee payments into the United States (Millions of US\$)***

