

**CONFERENCE OF EUROPEAN STATISTICIANS**

For discussion and recommendations
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Third Meeting of the 2012/2013 Bureau  
Luxembourg, 5-6 February 2013

Item 4(h) of the Provisional  
Agenda

**PROGRESS REPORT OF THE TASK FORCE ON  
GLOBAL PRODUCTION**

**Note prepared by the Task Force**

(This note is submitted with some delay in order to take into account  
the outcome of the Task Force meeting on 21-22 January 2013)

**I. BACKGROUND**

1. The CES Bureau established the Task Force (TF) on global production in November 2011 (ECE/CES/BUR/2011/NOV/3/Add.1). The work plan was approved in February 2012 (ECE/CES/BUR/2012/FEB/11).
2. According to the terms of reference, the objectives of the TF are twofold. The first goal is to develop guidance on the unresolved conceptual issues arising from 2008 SNA and BPM6 in relation to global production. The second goal is to develop further guidance on implementation aspects. In doing so, the TF will study the existing practices of countries in relation to the different types of global production arrangements.
3. The final outcome, to be presented to the CES tentatively in April 2014, will be a report including guidelines on global production which should:
  - (a) Focus mainly on national accounts and balance of payments aspects;
  - (b) Collect information of existing global production arrangements and country experiences for their treatment in national accounts and balance of payments accounting;
  - (c) Clarify typology, concepts and definitions;
  - (d) Address arising conceptual and measurement issues;
  - (e) Provide practical guidance on the statistical treatment of global production arrangements;
  - (f) Provide guidance on the required data collection, including the use of administrative data;
  - (g) Recommend examples of good practices whenever appropriate.

4. The TF is established under the Steering Group on National Accounts and reports to the CES and its Bureau. International coordination is ensured through the ISWGNA Advisory Expert Group on National Accounts (AEG) and through consultation with the UNECE Group of Experts on National Accounts (organized jointly with OECD and Eurostat), the OECD National Accounts Working Party, the BOPCOM and ESCAP Committee.

**5. The Bureau supported the work of the Task Force on global production and highlighted its importance in the context of SNA 2008 implementation.**

## **II. ACHIEVEMENTS**

6. Since the last report to the CES Bureau in February 2012, the TF had three face-to-face meetings (4 May 2012, 5 October 2012 and 21-22 January 2013) and a number of teleconferences. It developed drafts of all chapters marked as first priority in the work programme approved by the Bureau and consulted the research issues and draft proposals with various international fora.

7. At the start of its work, the TF developed a detailed outline report based on issue papers. The outline report provides an overview of the topics to be covered in the final report. It presents the content of each chapter, the research issues to be explored, links to other chapters or international initiatives and case studies to be examined.

8. The outline report was reviewed and discussed at the AEG meeting (23-25 April 2012, New York) and at the meeting of the Group of Experts on National Accounts (30 April-4 May 2012, Geneva). A more detailed report together with discussion on selected research issues was presented to the OECD Working Party on National Accounts, 3-5 October 2012, Paris. Furthermore, an information note on the work of the TF was provided to the BOPCOM meeting in January 2013.

9. Taking into account the feedback from the various meetings, the TF started to develop the chapters of the final report. The dedicated wiki website (<http://www1.unece.org/stat/platform/display/TFGP/Home>) maintained by UNECE was used as a tool for commenting and reviewing the chapters.

10. At present the drafts of the following seven chapters, considered as first priority, are already available:

- Typology of global production arrangements
- Principles of economic ownership
- Transfers of intellectual property products
- Multi-territory enterprises
- Quasi-transit trade and related phenomena
- Recording imports and exports of goods on the basis of transfer of ownership
- Recording of production abroad

11. The first six draft chapters mentioned above were discussed in detail at the TF meeting on 21-22 January in Geneva and will be revised to reflect the comments made by the beginning of March. The chapter "Recording production abroad" became available after the meeting and will be reviewed through written consultation.

12. The TF also agreed on a timetable for preparation of the second priority chapters, namely:

- Merchanting of services
- Large and complex cases units
- Trade in value added

13. Coordination of the work of the TF with other initiatives, such as the Eurostat TF on Goods Sent for Processing, ESSNet on Global Value Chains and OECD/WTO work on Trade in Value Added has been ensured by the participation of the relevant organizations in the TF.

### **III. MAIN CONCEPTUAL ISSUES UNDER DISCUSSION**

14. The TF identified a number of conceptual issues in respect to global production arrangements, where additional guidance and clarification of the 2008 SNA may be required. The most significant issues are:

(a) The industrial classification of so-called ‘Factoryless Producers’;

(b) Enhancing guidance on the recording of transactions in goods according to transfer of ownership principles in the case of various global production arrangements such as processing, merchanting and quasi transit trade;

(c) Determining economic ownership of Intellectual Property Products (IPP) inside multinational enterprise groups, and in particular economic ownership of IPPs under legal ownership of “brass plate” affiliates.

15. At this stage of research, the above issues are expected to lead to further clarification of existing international guidelines (BPM6 and SNA 2008).

16. The issue of the classification of Factoryless Producers is also pertinent to the implementation of other related international standards, in particular ISIC Rev.4 and NACE Rev. 2. It is further explained below.

#### **A. Factoryless Production - defined**

17. In the case of Factoryless Production the entire production process is outsourced. The Factoryless Producer (also called the principal) may or may not own the material inputs being used in the production process. However, the Factoryless Producer provides the intellectual property products to the contractor as inputs into the production process; in other words the principal supplies the “blueprints” for production. The Factoryless Producer also manages the overall production process, controls access to consumers, and the trademarks.

#### **B. Factoryless Production – issues in relation to ISIC Rev.4 and NACE Rev.2**

18. Critically, in ISIC Rev.4 only one aspect of the process determines whether the activities of the Factoryless Producer are recorded under manufacturing or under trade: whether it owns the main material inputs. The TF have highlighted that the ownership of the associated intellectual property (IP), which remains with the Factoryless Producer in all

cases, is in terms of value added shares often of equally significant input as the material inputs. The material inputs may not be particularly costly in themselves and much value is added by the use of the IP in the design and marketing of the new product. The production of an integrated circuit or electronic “chip” is an example. In ISIC Rev.4, the emphasis on the ownership of the material inputs as opposed to the key intangible IP input seems unbalanced and warrants some reinterpretation, particularly in respect to the 2008 SNA provisions on economic ownership.

### **C. Factoryless Production – BPM6 guidelines**

19. In BPM6, it is not so clear that the classification of Factoryless Producers is based purely on ownership of the material inputs. In the section dealing with goods for processing, the discussion includes the case where a manufacturing service fee could include the cost of materials purchased by the processor.<sup>1</sup> Indeed many of these relationships are contractual where responsibility may be shared between the unit responsible for the transformation and the principal. Assigning industry classification based solely on material inputs appears problematic because it will rarely be the case that all the material inputs will be directly purchased by the principal.

20. The TF views the Factoryless Producers as being genuinely engaged in production/manufacturing irrespective of whether they own the material inputs or not, and considers that the ownership of materials should not be the sole determining factor in recording the economic activity in such cases. **Since this view will impact the interpretation and implementation of the international recommendations, the TF will bring the issue for consultation with the AEG and the ISWGNA.**

### **IV. FURTHER WORK**

21. The TF plans to finalize its work according to the following timetable:

(a) The chapters will be revised and sent out for country consultation in the course of March 2013;

(b) A special meeting of the Group of Experts on National Accounts is convened on 3-4 April 2013 in Geneva to review the draft TF report. The TF will hold a meeting on 5 April to discuss the feedback of the country consultation and the Group of Experts meeting. The TF will decide on final content of the report and a more concrete timetable for finalization;

(c) The TF will prepare, for consideration by the AEG, an issues paper on the main issues which may affect the interpretation of the 2008 SNA. The AEG is expected to provide guidance on these issues related to the recording and classification of the various types of global production arrangements;

(d) Taking into account the recommendations of the AEG, the Editor(s) will assemble the final report based on the revised chapters;

(e) The draft report will be sent for comments to the Steering Group on National Accounts and the ISWGNA in September 2013;

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<sup>1</sup> BPM6 paragraph 10.64.

- (f) The report will be submitted for approval to the CES Bureau in October 2013;
- (i) The report will be finalized based on the input from the consultation and submitted to the CES plenary session in April 2014.

## **V. ISSUES FOR THE ATTENTION OF THE BUREAU**

22. Due to the efforts made, the TF is still on track and will try to keep to the original timetable. However, the following issues need the attention of the Bureau:

- (a) Collecting suitable case studies has been challenging and more time consuming than anticipated;

- (b) Some of the recommendations of the TF may affect the interpretation and implementation of the 2008 SNA and ISIC Rev. 4.

23. For the above reasons, the consultation process of the final report may take longer than anticipated.

24. The TF on Global Production would appreciate any feedback, advice or comments on the progress of work, the open discussion issues and the proposed way forward.

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