

Annex to the Short Report of the twelfth meeting of the Group of Experts on National Accounts -interim meeting on Global Production (3-4 April 2013), including detailed conclusions

Note by the secretariat

I. Opening of the meeting and adoption of the agenda

1. The United Nations Economic Commission for Europe (UNECE), the Organization for Economic Cooperation and Development (OECD) and Eurostat welcomed the participants and thanked them for the support to the work of the Task Force on Global Production (TFGP). The purpose of this meeting was to review the chapters of the Task Force report, to collect country practices and discuss implementation issues and areas for future work.

2. The participants were informed about the outcomes of the Conference of European Statisticians (CES) Bureau, which discussed the progress report of the TFGP at its meeting on 5-6 February 2013. The Bureau expressed support and appreciation for the work on global production. It highlighted the importance of practically oriented guidelines, which are anticipated by countries for the implementation of the 2008 System of National Accounts (SNA). The Bureau asked the TFGP to avoid delays in its work; the practical recommendations should be given priority and the methodological issues that could take longer time for research should be addressed at a second stage.

3. The meeting of the United Nations Statistical Commission (UNSC), from 26 February to 1 March 2013, reviewed a report of the Intersecretariat Working Group on National Accounts (ISWGNA), which included a reference to the work of the TFGP and its global impact. Another international initiative important for the work of the TFGP is the proposed Friends of the Chair Group, which will coordinate the work on international trade and issues related to economic globalisation.

4. The agenda of the meeting was adopted.

II. Introduction to the work of the TF on Global Production: main research issues and structure of the final report

5. Mr. M. Connolly (Ireland), Chair of the TFGP, provided an overview of the main research issues and the structure of the report.

III. Review of the Draft Report on Global Production

6. The following section summarizes the comments made during the review of the draft TFGP report. It starts with more general comments, followed by more concrete comments specific to the individual chapters.

A. General comments

7. The meeting reiterated the call of the CES Bureau for practical and easy to implement guidelines. At the same time it recognized that a sound conceptual basis and clear decisions on the main methodological research issues are needed before detailing the implementation recommendations. The report developed by the TFGP should be called a Guide in order to highlight the aim of the publication to provide practically oriented compilation guidance on the implementation of the 2008 SNA and BPM6 in relation to global production arrangements.

8. In general, the guidance given in the chapters should be strengthened. A common template, where the main messages and recommendations of the TFGP are listed in the end of each chapter, could be used.

9. The proposals in relation to international standards should be more explicit. It should be clear if they are within the frame of existing standards or highlight issues for future revisions. It should be also indicated on which issues the TFGP came to a firm conclusion and which issues require further research.

10. The chapters should outline the conceptual framework, followed by measurement issues and descriptions of what actually could be done when applying the concepts in practice. In several cases, there could be tension between conceptual correctness and measurability and this should be clearly explained in the chapters.

11. Additional case studies are needed, particularly from countries beyond the TFGP membership. They are important in order to identify and recommend good practices. ESCWA and CISSTAT will encourage their member countries to provide case studies.

12. The discussion revealed many underlying practical challenges related to data issues and compilation methods. There is a need to establish a regular forum where country experts could share information and experience on measurement issues related to global production arrangements. Such a forum would help to identify good practices and support the development of possible recommendations on harmonization of data sources and measurement methods.

B. Specific comments

1. Typology of global production arrangements (item 3)

Documentation: Chapter 1: Typology of Global Production Arrangements (Working Documents No.1)

13. The session was chaired by the Central Statistical Office (CSO) of Ireland. The draft chapter was presented by the Bureau of Economic Analysis (BEA) of the United States and OECD acted as discussant. The following main points were outlined in the discussion and the concluding remarks:

14. The goal of chapter 1 has to be more clearly formulated. This chapter should serve as a roadmap for the content of the rest of the Guide.

15. The chapter needs to be rearranged to incorporate the discussion and arguments on the industrial classification of factoryless producers, which are included in other chapters.

16. The numerical examples presented in the chapter are illustrative and very useful. These examples should be kept simple to introduce the main global production types and then further guidance on borderline or more complex cases could be added.

17. The TFGP will discuss the remaining issues (e.g. research and development) in the upcoming TF meeting and will decide how to incorporate all comments.

2. Economic ownership within global production arrangements (item 4)

Documentation: Chapter 2: Principles of economic ownership (Working paper No. 2); Measuring International Transfers of Intellectual Property Products in the Netherlands (Working document No. 3/Add.1); Chapter 3: Transfers of intellectual property products (Working paper No. 3); Investment in Mining Exploration in Chilean National Accounts (Supporting paper No. 1).

18. The fourth item of the agenda addressed issues related to economic ownership and was chaired by Statistics Netherlands. The discussion was based on draft chapters presented by CSO of Ireland and Central Bureau of Statistics of Israel, discussant presentation by OECD and a supporting paper by the Central Bank of Chile. The following main points were outlined in the discussion and the concluding remarks:

19. The chapters provide good conceptual discussion. The practical advice and guidance how to interpret the SNA ownership concepts in concrete cases should be further developed.

20. Determining economic ownership within MNEs and particularly ownership over IPPs under legal title of special purpose entities (SPEs) present a special concern. Even if actual economic ownership does not lie in the hands of brass plates, it is impossible to ignore their transactions in the economy where they are incorporated. Further, any adjustments done in the non-financial accounts will have an impact on the recording and consistency with the financial accounts. The TFGP will propose a solution for recording IPPs and the related transactions of SPEs in the accounts. Proposals for supplementary data sets, for example data sets showing national accounts data excluding and including the transactions of SPEs, are welcomed.

21. The chapters should elaborate further the guidance on recognizing economic ownership (e.g. how to transfer data collected on legal ownership basis into SNA concepts; what are the recommendations in relation to appendix 2, etc.). The discussion on risks and benefits should be extended to add practical advice on the criteria to be used when defining the owner.

22. The discussion on factoryless producers should be refined. It should reflect the role of IPP inputs in the production process. The issues paper for the Advisory Expert Group (AEG) on National Accounts is a step in this direction. Nevertheless, the issues related to the classification of factoryless producers should be out of the scope of chapter 2 and could be linked to the typology presented in chapter 1.

23. Guidance on defining economic ownership inside multinational enterprises (MNEs) needs to be strengthened and synchronized between chapters 2 and 8.

24. The decision tree in chapter 3 is very useful. The chapter could add further guidance on how to follow the decision tree and make it clear when one has to diverge from the accounting standard.

3. Measurement issues – part 1 (item 5a)

Documentation: Chapter 4: Measurement of multi-territory enterprises (Working paper No 4); Chapter 5: Merchanting of Services (Working document No. 5); Chapter 6: Measurement Issues Associated with Quasi-transit Trade and Similar Phenomena (Working paper No. 6); Foreign trade based on ownership principle and international movements of goods: Czech approach (Supporting paper No. 2).

25. The first part of the fifth agenda item focused on the measurement challenges associated with specific cases closely related to global production and globalization. It was chaired by the BEA of the United States and included presentations of draft chapters by Statistics Norway, World Trade Organization (WTO), and the International Monetary Fund (IMF), discussant comments by Statistics Netherlands and Eurostat and a supporting paper by the Czech Statistical Office.

26. The following main points were outlined in the discussion on multi-territory enterprises:

(a) The chapter should recommend minimizing the use of notional units to the extent possible.

(b) The development of prorating indicators and models is a difficult issue and is contingent on the availability of additional information. It also depends on the harmonization of data and cooperation among statistics compilers in different countries.

(c) Additional surveys may be needed to meet specific data needs, but the response burden has to be considered.

(d) The country examples under some types of multi-territory enterprises do not reflect the recommended SNA solution. In this respect, it is advised that the Guide presents first the “correct” SNA treatment and then the concrete country solution with an explanation on why it was chosen.

27. The following issues were raised in relation to the chapter on merchanting of services:

(a) The TFGP should further consider the conceptual grounds and the practicalities for recognition of merchanting of services.

(b) Additional arguments could be explored in the context of merchanting of services: services are different from goods and the accounting treatment for goods may not be applied easily; there could be a discrepancy with domestic accounts, where trade margins on services are not recognized; distinction should be made between services that are produced and consumed directly and IPPs; merchanting of services within MNEs.

(c) In order to bring the discussion further, the TFGP needs a sufficient number of case studies. Countries are encouraged to provide examples of such arrangements.

(d) If a case for recognising merchanting of services is made, the issue will be brought for consideration in future updates of the SNA and BPM6.

28. As a result of the discussion on Quasi-transit trade and related phenomena, the meeting concluded that:

(a) The proposal in the chapter reflects the recommended BMP6 treatment for the national data sets collected by the IMF, while the Eurostat approach to record a branding adjustment item applies only to the EU aggregates and not to the individual country data.

(b) Quasi-transit trade is a huge issue for the European Union (EU) and raises concerns for asymmetries. A reference to the branding adjustment adopted in the EU accounts could be made in the chapter.

(c) The issues related to VAT registration that are raised in other parts of the Guide could be brought to this chapter.

4. Measurement issues – part 2 (item 5b)

Documentation: Chapter 7: Recording imports and exports of goods on the basis of transfer of ownership: Eurostat's Task Force on goods sent abroad for processing (Working paper No.7); Chapter 8: Measuring Production Abroad (Working document No. 8); Chapter 9: Measuring Trade in Value-Added (Working paper No. 9); Goods for Processing in Mexico (Supporting paper No. 3); How will the Statistical Adjustment on Manufacturing Services on Physical Inputs Owned by Others Affect China's Balance of Payments Statistics? (Supporting paper No. 4).

29. The second part of this agenda item was chaired by the BEA of the United States and included presentations on the practical challenges encountered in the implementation of the 2008 SNA and BPM6 for some types of global production arrangements. The discussion was based on draft chapters presented by Eurostat, Statistics Canada and OECD, discussant presentations by Statistics Finland, Statistics Netherlands and the United Kingdom and supporting papers by Instituto Nacional de Estadística y Geografía (INEGI) of Mexico and the National Bureau of Statistics of China (SAFE) and Bank of Korea.

30. The following main points were outlined in the discussion and the concluding remarks on measuring production abroad and recording exports and imports on a transfer of ownership basis:

(a) There are many synergies between the two draft chapters and they should be merged together.

(b) In addition to merchandise trade statistics, different supplementary sources are already used by a number of countries in order to compile imports and exports on a change of ownership basis. These should be examined to recommend good practices, but the response burden should be carefully considered.

(c) Profiling work is important for the correct classification and defining the domestic activity of the units.

(d) A table on specific data needs will be provided as part of chapter 8 on recording of production abroad. The analysis of data sources could be concentrated in one place of the new common chapter.

(e) Constructing proper price deflators is also an important challenge, which could not be addressed in the current chapters. The TFGP will formulate a proposal for future work on this issue.

31. The discussion on Trade in Value Added led to the following conclusions:

(a) Measuring trade in value added (TiVA) is an important initiative that presents valuable insights to the linkages between economies. It also highlights the significance of the proper capturing of global production arrangements in national accounts and of the work done by the TFGP.

(b) The role of the knowledge economy and the contribution of IPPs should be further developed in the chapter. The iPOD example could be expanded to look at consumer prices as well. This will underline the importance of reclassifying factoryless producers to manufacturing.

(c) The input-output coefficients with respect to IPP services need more analysis and clarification.

(d) The future of TiVA and the impact of the implementation of the 2008 SNA and BPM6 should be further explored. The VAT registration may also have an impact on the TiVA analysis.

(e) The TiVA analysis is not to replace or change GDP and traditional foreign trade statistics, but to provide an additional perspective on imports and exports and a road map to move forward in policy related questions.

(f) The chapter provides a very useful contribution to the discussion on factoryless production, which could strengthen the arguments in chapter 1.

5. Organizational issues: Large and complex cases units (item 6)

32. The sixth item of the meeting discussed how national statistical offices could organize themselves in order to address challenges in surveying and analysing statistical information from large and complex enterprises. The item was chaired by CSO of Ireland and included a presentation of the preliminary results of the survey on LCUs by Statistics Netherlands and country experiences by Statistics Netherlands and Statistics Finland.

33. The following remarks were made under this item:

(a) The LCUs survey showed that countries have different kinds of organizational setups for surveying large and complex enterprises. It was very useful as it brought different experiences together and would be a good base for exchanging ideas on how to organize this pioneering work.

(b) Cooperation and data exchange between organizations involved in the compilation of National Accounts and Balance of Payments statistics (National Statistical Offices and National Central Banks) is important.

(c) The survey currently seems to focus on reconciliation and exchange of data in relation to non-financial accounts and BoP. The consistency analysis between financial and non-financial accounts could be addressed in the future.

(d) It is important to streamline the profiling methodology. An ESSNet project in this area is established.

(e) The countries that have large and complex enterprises units are invited to respond to the UNECE survey.
