Factory-less goods producers: a challenge to the NA industry breakdown

Presentation at the meeting of UNECE Group of Experts on National Accounts,
Geneva, 18-20 May 2016
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The problems

• The current situation for classifying FGP’s is unsatisfactory, merchanting is misleading.
• By which means do we identify the activity?
• Should there be a specific group of IPP activities in the activity classification?
• Is it possible to identify the production process behind copyrights?
• Should ownership be regarded as a criterion for the activity classification?
• Is the manager of the value chain a merchant?
# The holy trinity: activity, output and payment

<table>
<thead>
<tr>
<th>Productive activity (service)</th>
<th>Output (goods, IPP and services)</th>
<th>Payment (goods vs processing service)</th>
</tr>
</thead>
<tbody>
<tr>
<td>A.01.12 Growing of rice</td>
<td>Rice corn, raw (good)</td>
<td>Goods</td>
</tr>
<tr>
<td>A.01.41 Raising of cattle and buffaloes</td>
<td>Milk, raw (good)</td>
<td>Goods</td>
</tr>
<tr>
<td>B.06.10 Extraction of crude petroleum</td>
<td>Petroleum, raw (good)</td>
<td>Goods</td>
</tr>
<tr>
<td>C.10.50 Manufacture of milk and cream</td>
<td>Milk and cream (good)</td>
<td>Goods or processing service</td>
</tr>
<tr>
<td>C.10.61 Milling</td>
<td>Rice flour (good)</td>
<td>Goods or processing service</td>
</tr>
<tr>
<td>C.10.62 Manufacture of starches</td>
<td>Starches of rice (good)</td>
<td>Goods</td>
</tr>
<tr>
<td>C.18.10 Printing and binding of books</td>
<td>Printing and binding services</td>
<td>Processing service (only)</td>
</tr>
<tr>
<td>C.19.20 Manufacture of refined petroleum products</td>
<td>Gasoline, fuel oil, gases etc. (good)</td>
<td>Goods or processing service</td>
</tr>
<tr>
<td>C.26.30 Manufacture of communication equipment</td>
<td>Mobile communication equipment (good)</td>
<td>Goods or processing service</td>
</tr>
<tr>
<td>J.58.11 Publishing of books</td>
<td>Book titles (IPP) and books (good)</td>
<td>Goods</td>
</tr>
<tr>
<td>M.72.10 Research and experimental development on natural sciences</td>
<td>Patent (IPP) and R&amp;D services</td>
<td>R&amp;D service</td>
</tr>
<tr>
<td>M.74.10 Graphical and other specialised design</td>
<td>Copyright (IPP) and copyright services</td>
<td>Copyright service</td>
</tr>
<tr>
<td>N.77.4 Leasing of intellectual property</td>
<td>IPP services</td>
<td>IPP service (royalties and license fees)</td>
</tr>
<tr>
<td>R.90.03 Literary and artistic creation</td>
<td>Copyright (IPP) and copyright services</td>
<td>Copyright service</td>
</tr>
</tbody>
</table>
The publisher as FGP

• A factory-less goods producer (FGP):
  – provides IPP necessary for production of goods
  – outsources manufacturing
  – is the manager of the value chain

• The book publisher:
  – provides the original master (book title)
  – outsources printing of books
  – contracts with the author and promotes the sales of books
A publisher as a FGP

Publisher (principal)

Flow of goods or IPP

Flow of money

Customers like bookstores and webstores

Master copy (IPP capital service)

Printing firm (sub-contractor)

The publishers storage for subsequent sales

Manufacturer of inputs
The publisher as FGP

• The output of a publisher:
  – the title (book, computer game etc.) (IPP)
  – downloading service of electronic copies (retail)
  – sales of physical copies (books, CD:s etc.) (good)

• Should activity be identified by the source of revenue?
  – in many cases the main revenue comes from the typical output of the activity
  – exceptions like publishers and FGP’s are problematic and generalisation is therefore not possible
The publisher as FGP

• Why is copyright treated differently than other IPP like R&D (patented items)?
  – the use of copyright is output of publishing
  – the use of patent is output of leasing activity
• Could this difference be solved by a well defined production process for copyrights?
• Alternatively; let all leasing of product specific IPP be output of the same activity as the product itself, for example the use of patents for cars would be output of C29
FGP as a merchant

FGP, head office

Customers like wholesalers and final users

Manufacturer of finished goods

Manufacturer of inputs

Domestic economy

Rest of the world

Flow of goods or IPP

Flow of money

IPP service

principal
Ownership of inputs

• Ownership is not an activity, holding is passive (a state)
• In social accounting legal ownership is subordinated the function (economic ownership)
• In what sense can ownership tell us something about the underlying activity?
  – ownership of inputs is a claim on output
  – ownership of output by other means
  – ownership of inputs does not tell who is the producer of inputs
FGP as a manufacturer

FGP, head office

- Flow of goods or IPP
- Flow of money

- Domestic economy
- Rest of the world

Customers like wholesalers or final users

Manufacturer of finished goods

Manufacturer of material inputs

IPP capital service
Classification of FGP

• FGP as merchant (G46) or head office (M70.1) would give the wrong information of its role in and contribution to economic activity.

• If value added (VA) in R&D and leasing of IPP is large in relation total VA it is recommended to separate these activities into own establishments.

• But in many cases relevant data is missing and we end up in a second best solution.
The current model, activities

Institutional unit, enterprise

- Leasing of IPP
- Management, ancillary
- R&D for motor vehicles
- Production of motor vehicles

Foreign subsidiary
The current model, activities

Institutional unit, enterprise

- Headquarters, patent owner N77.4
  - R&D services
  - Leasing of IPP
  - Leasing of IPP, export

- R&D producing establishment, M72
  - Leasing of IPP

- Car producing establishment, C29
  - Delivery of cars (export)
  - Flow of goods, services or IPP

- Foreign subsidiary
  - Delivery of cars (export)
The current model, actual case

Institutional unit, enterprise

Headquarters, car producer and patent owner C29

R&D producing establishment, M72

Payments for delivered cars

Invoicing customers (export of cars)

Delivery of cars (export)

Merchanting flows

Foreign subsidiary

Flow of goods, services or IPP

Flow of money

R&D services
Classification of FGP

• When manufacturing has been totally outsourced merchanting flows will be the main revenue to cover the R&D and management costs unless we impute leasing.

• The solution in GMGP is to classify the FGP in manufacturing by accepting IPP inputs equal to material inputs.

• Alternative; impute leasing of IPP and accept royalties for the use of patents on specific goods to be part of manufacturing output.
The current model, FGP case

Institutional unit, enterprise

Headquarters, patent owner G45

R&D producing establishment, M72

Payments for car delivery

Merchanting flows

Foreign subsidiary

Invoicing customers (export of cars)

Delivery of cars (export)

Foreign subsidiary, outsourced car production

Flow of goods, services or IPP

Flow of money
The GMGP model

Institutional unit, enterprise

- Headquarters, patent owner C29
- Car producing establishment C29
- R&D producing establishment M72

Relationships:
- R&D services
- Leasing of IPP
- Leasing of IPP, export
The GMGP model, FGP case

Institutional unit, enterprise

Headquarters, patent owner C29

R&D producing establishment, M72

Leasing of IPP, export

Leasing of IPP, export

Foreign car producing enterprise
Thanks for your attention!