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# Treatment of FGPs in ISIC and Guidance on Identifying FGPs

**UNSD Expert Group on International Statistical Classifications  
Technical Subgroup – ISIC**

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# TSG-ISIC Meeting Oct. 2014

## Conclusions:

- No structural changes to be made to ISIC 4
- No change to the existing guidelines on outsourcing
- Additional research is needed to better understand:
  - The nature, composition and empirical significance of the activity of outsourcing the production of goods in national economies
  - Its impact on statistics classified by economic activity (industry)
  - Consequences of any potential changes to current ISIC treatment
  - Make sure that required data on outsourcing and FGPs can be collected

## Purpose of TSG-ISIC May Meeting

- Guidelines and tools for NSIs to identify global production arrangements/FGPs (questions, other approaches, admin data sources, etc.)
- Typology for global arrangements for ISIC4
- Guidelines for classifying units under various global arrangements (i.e., flags or BR)
- Monitor the impact of proposed changes from TFGP and AEG on ISIC4

# BACKGROUND INFORMATION

Current classification of units that outsource  
production in ISIC4

## Outsourcing / activities on a fee or contract basis – ISIC4

- **Principal:** unit that enters a contractual relationship with another units (contractor) to carry out some part or all of the production process
- **Contractor:** unit that carries out a specific production process on a contractual relationship with a principal on a “fee or contract basis”
- **Outsourcing:** contractual relationship in which the principal requires the contractor to carry out a specific process
- Principal and contractor may be located in the same economic territory or in different economic territories – location of units does not impact the classification of these units

## **Outsourcing / activities on a fee or contract basis – classification of the contractor**

- Contractors carrying out an activity on a fee or contract basis are usually classified in the same ISIC activity as units producing the same goods or services for their own account
- Exceptions to this rule exist for trade activities for which separate categories for such outsourced activities exist (e.g., 461 Wholesale on a fee or contract basis)

## **Outsourcing / activities on a fee or contract basis – classification of the principal**

### 1. Outsourcing of parts of the production process

- Principal is classified to the class that corresponds to the activity representing the complete production process (i.e., unit is classified as if it were carrying out the complete process, including the contracted work)
- Applies to outsourcing of support functions in production process (e.g., accounting or computing activities) and outsourced parts of the core production process (i.e., parts of manufacturing)

### 2. Outsourcing of the complete production process

- In general, the principal is classified as if it were carrying out the production process itself; applies to all services, including construction
- Exception is manufacturing

## Outsourcing / activities on a fee or contract basis – classification of the principal

### 2. Outsourcing of the complete production process – **manufacturing**

- Principal provides the contractor technical specifications of the manufacturing process on input materials (raw materials/intermediate inputs)
  - Principal that owns the material input materials should be classified to manufacturing (owns the final output)
  - Principal that does not own input materials should be classified to wholesale/retail trade (buying the completed good from the contractor and reselling it)
  - Final classification of the principal may also depend on other activities carried out by the unit