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Economic Commission for Europe

Conference of European Statisticians

Group of Experts on National Accounts

Fourteenth session

Geneva, 7-9 July 2015

Item 1 of the provisional agenda

Opening of the meeting and adoption of the agenda

Annotated provisional agenda for the fourteenth session

To be held at the Palais des Nations, Geneva starting on 7 July at 9:30 in Salle V.

I. Provisional agenda

1. Opening of the meeting and adoption of the agenda
2. Data users' viewpoint to global production
3. Country experiences in dealing with global production in economic statistics
4. Emerging conceptual issues in global production
5. Global accounts
6. Panel discussion
7. Future work and adoption of the report
8. Other business

II. Annotations to the provisional agenda

1. Opening of the meeting and adoption of the agenda

1. Economic globalization has created new opportunities for businesses to organize their production chains more efficiently. This has increased the complexity of compiling economic statistics as it is more difficult to break down production activities on country-by-country basis. As a result the measurement of key economic indicators, including gross domestic product (GDP) has been affected. In order to help countries deal with these challenges, the Conference of European Statisticians (CES) established a Task Force on

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Global Production (TFGP) to develop guidance on the implementation of the System of National Accounts 2008 (2008 SNA) and the new Balance of Payments and International Investment Position Manual (BPM6) in respect to global production arrangements. The Task Force prepared a Guide to Measuring Global Production which was sent for global consultation and will be presented for endorsement to the CES in June 2015.

2. In April 2014, the CES also decided to create a forum for exchanging experience on data collection and compilation methods in respect to global production arrangements. The CES asked UNECE and the Group of Experts on National Accounts to provide such a forum (ECE/CES/87). The collected country examples and good practices will be used for future updates of the Guide to Measuring Global Production. Following the request of the Conference, the Group of Experts on National Accounts recommended that UNECE, jointly with Eurostat and the Organisation for Economic Cooperation and Development (OECD), organize a special meeting of the Group to discuss practical experience in measuring global production. The meeting should be prepared in consultation with the Steering Group on National Accounts and the TFGP (ECE/CES/GE.20/2014/2).

3. The opening address will be delivered by Mr. Christian Bach, Executive Secretary of the UNECE.

2. Data users' viewpoint to global production

Organizer: UNECE

Presentations by: Mr. Aaron Sydor (Deputy Chief Economist at the Foreign Affairs, Trade and Development Department of Canada), Ms. Lena Hagman (Chief Economist of the Almega – employer and trade organisation for the Swedish service sector), Mr. Hubert Escaith (Chief Statistician of the World Trade Organization), Mr. Robin Lynch (private expert on behalf of Eurostat), Mr. Richard Kozul-Wright (Director of the Division of Globalisation and Development Strategies of UNCTAD – to be confirmed), Mr. Paul Dembinski (University of Fribourg – to be confirmed)

4. The presence of different global production arrangements raises a number of policy and analytical challenges. The session will discuss the data needs of users and their expectations from macroeconomic statistics in times of increased globalization. It will inquire how users read macro data that is influenced by global production and would present good practices in communicating the changes in national and international accounts due to the treatment of global production.

5. The aim of the session is to bring together different perspectives and engage key stakeholders, such as policy makers, businesses, professional associations, central banks and academia.

6. *Global Values Chain Data – A Canadian perspective of a researcher and policymaker* by Aaron Sydor will provide an overview and examples of how an understanding of global value chains has influenced policy development in Canada with respect to trade negotiations, trade promotion and international economic development. It will also look at some ongoing research questions and data needs from a policy development perspective. Canada has been a leader in incorporating the concept of global value chains and the international fragmentation of production into policy development and program delivery at both the international and domestic levels.

7. *The importance for economists to follow the changes in value chains* by Lena Hagman will point out why analysis of input-output-statistics, both from Statistics Sweden, and from the World Input-Output Database (WIOD) and OECD-WTO Trade in Value Added (TiVA) has been very valuable in order to understand the structural change in

Swedish economy. The presentation gives some examples and explains why users of the statistics need to follow the continuing changes in value chains.

8. *Closing the gaps between trade theories, trade policies and global production statistics: a practitioner's perspective* by WTO will present how the geographical fragmentation of industrial production alters many of the stylized facts on which trade models are based, with profound economic and social implications at home. To guide policy makers, theory and statistics should go hand in hand: it is important to develop the right empirical tools to back academic research and identify gaps that require further attention. The presentation builds on this relationship between trade theory and statistics and suggests a road map for empirical work.

9. *The minimisation of profits tax by multinational companies and its effect on the measurement of global production* by Robin Lynch will discuss the analytical challenges resulting from the multinationals' strategies in the arrangements for global production, which minimise their tax payments on profits. These strategies create measurement problems for National Statistical Offices, and can cause inconsistencies between countries' GDP. The paper describes the issue, and sets out approaches to resolving them.

10. The session tentatively also includes presentations by UNCTAD and University of Fribourg.

3. Country experiences in dealing with global production in economic statistics

Organizer: Statistics Canada

Presentations by: Statistics Canada, the National Institute of Statistics and Geography (INEGI) of Mexico, Bank of Korea, Central Statistical Office (CSO) of Ireland, National Institute for Statistics of Italy (ISTAT), Banka d'Italia, Statistics Finland/Statistics Norway (to be confirmed), Eurostat, UNECE

11. Over the last 10 years macroeconomic accounting frameworks have been adapted to reflect the changing global economic landscape. Concepts such as global production, goods for processing and merchanting have been integrated into these frameworks. National statistical organizations are now being challenged with collecting, compiling, analyzing and disseminating a new set of information for their users. This session will explore the different sources of information NSOs are using to measure these increasingly complex arrangements. This session will also explore different tools, databases and products countries are producing for users, enabling a better understanding of the global economic landscape. In addition, organizational units to examine MNEs and other statistical units that are important for the quality and consistency of statistics will be discussed. The collected material will be used for future updates of the Guide to Measuring Global Production.

12. The session will specifically focus on the following topics:

A. Data collection, revision of questionnaires and compilation techniques

13. *The Use of Economic Survey, Custom Records and Economic Census in the Generation of Global Production Statistics* by INEGI (Mexico) builds on the work on statistical measurement of global manufacturing production and value added in exports of manufacturing. The results, released in 2014 in supplementary supply and use tables of global manufacturing, provided a picture of the participation of Mexican economy in global value chains. The tables were developed on the basis of data available in INEGI from surveys and administrative records of foreign trade. The paper will present the use of micro-data from economic surveys, custom records as well as the set of new questions that

were added to the Economic Census 2014 in order to identify more precisely the business practices and transactions between resident and non-resident units from the manufacturing and services sectors.

14. *Korea's Case in the Compilation of Goods for Processing and Merchanting* by Bank of Korea will present the compilation of goods for processing and merchanting according to the BPM6 principles. The main data sources used are the Foreign Exchange Information System (FEIS, the International Transactions Reporting System in Korea) data and customs data. The following steps are taken to estimate the value of goods for processing and merchanting: (i) the total exports of goods for processing and merchanting are estimated by the differences between exports (imports) in FEIS and exports (imports) in customs data; (ii) the total amount of processing and merchanting is divided into trade for processing and merchanting by using the survey data.

15. *Strategies for Collecting Information Related to Global Production, Goods for processing and Merchanting* by Statistics Canada. Changes in technology, trade agreements, multi-national organizational structures and government policy have significantly altered the way firms operate. Firms are now operating with a global rather than domestic mindset. Macroeconomic accounting frameworks, which measure domestic product, national income and trade, have recently been updated to better capture the increasingly global activities and international inter/intraconnectedness of firms, governments and individuals. Data collection vehicles need to be updated so that they can provide the informational building blocks needed to populate these revised frameworks. Over the last year Statistics Canada has been developing and testing a number of questions related to global production, goods for processing and merchanting that could be combined with Statistics Canada's existing data sources and collection vehicles to better capture the global activities of Canadian businesses. This paper outlines the proposed questions and the collection vehicles that will be used to interface with the respondents.

16. *Estimating Foreign Trade According to 2008 SNA/BPM6* by Eurostat will deal with the practical application of the 2008 SNA rules on recording changes of ownership. One of the fundamental changes in the 2008 SNA/BPM6 is the treatment of goods sent abroad for processing. When goods are sent abroad for processing there is no imputation of a change of ownership, but rather recording of one entry - an import/export of the processing service concerned. The practical consequences of this rule were discussed by a Eurostat Task Force and resulted in the Manual on Goods Sent Abroad for Processing. During meetings of the Task Force issues related to foreign trade reported by non-residents came forward. After collecting information on Member States' activities on this topic, an Expert Group addressed the issue and came up with a number of practical recommendations. The paper gives an overview of both issues; goods sent abroad for processing and foreign trade reported by non-residents.

17. *Combining Administrative and Statistical Sources to Estimate Goods Sent Abroad for Processing in Italy* by ISTAT discusses the challenges with the practical implementation of the treatment of trade in goods and services in National Accounts and in Balance of Payments. International merchandise trade statistics (IMTS) data, classified by the Nature of the Transaction code, do not always provide all the necessary information to estimate international processing services and imports and export of goods according to the change of ownership principle. Hence, it is strongly recommended to supplement IMTS data with information collected through business surveys and to reconcile the information coming from different sources. This paper describes both the data sources used and the procedure followed in Italy to estimate goods sent abroad for processing, focusing in particular on the use of a new source of information, the Intra-Community trade in services data collected by the tax authority, available since 2010.

B. New approaches to better understanding of the global economic landscape

18. *The Inward Foreign Affiliate Statistics Program* at Statistics Canada is an initiative undertaken to identify and analyse additional dimensions of foreign direct investment in Canada – more specifically, the characteristics of Majority-Owned Domestic Affiliates (MODAs) of foreign multinational enterprises. These estimates will provide new insight on the impact of foreign multinationals on the Canadian economy. This paper (i) outlines the methodology used to construct the estimates and how Statistics Canada leveraged existing data holdings and used record linkage techniques to tie them to the Foreign Direct Investment (FDI) concepts and frame, and (ii) provides a summary of selected estimates in the context of a broader micro-macro globalization framework.

19. *Goods trade and Processing in the New National Accounts: a Different View from the Past* by Banca d'Italia and ISTAT will present the information set, disaggregated by product and by geographical counterpart, used by ISTAT in the estimation of national accounts trade flows with the rest of the world. In the 2008 SNA and BMP6, exports and imports of goods are computed excluding temporary transactions, which are instead considered as processing services. While the new treatment better reflects country's participation in global value chains, it also has potential drawbacks for the geographical and sectoral analysis of trade with the rest of the world, which is historically conducted on the basis of trade data that includes temporary transactions. The paper (i) proposes analysis of processing services flows in order to identify the main drivers in terms of domestic sectors and trade partners and (ii) evaluates whether the new treatment of processing substantially modifies the structural interpretation of Italian trade in goods.

C. International data exchange

20. *International Data Sharing Agreements* by Statistics Canada describes why data sharing agreements between domestic organizations are an effective way to reduce respondent burden and increase efficiency. While the benefits are numerous, challenges in establishing and maintaining these agreements do exist as the individual organizations are often constrained by their particular legislative, policy and operational requirements. These challenges multiply when cross-territory data sharing agreements are considered. The increasing interconnectedness of the global economy has forced statistical organizations to explore entering into cross territory data sharing agreements where they will be able to connect the global dots found in global value chains, international financial transactions and complex multi-territory organizational structures. Since 1990, Statistics Canada and the US Census Bureau have shared customs import transactions and used the data to compile official export statistics. This paper outlines the agreement and highlights the infrastructure needed to establish and maintain cross-territory data sharing agreements.

21. *Exchange of unit level data as part of a mirror exercise of inward and outward FATS* (to be confirmed) by Statistics Finland and Statistics Norway introduces a project of national statistical institutes of Norway, Denmark and Finland aiming to improve the quality of Foreign Affiliates Statistics (FATS) by comparison of enterprise-level micro data with identifiers. The study was a sub-project of a larger European Statistical System (ESSnet) project on measuring global value chains. To make the study possible, the three institutes negotiated a confidentiality agreement on the use of micro-level FATS data. Based on this agreement, data for reference year 2009 was exchanged between the partners, for the duration of the ESSnet project. The Finnish and Norwegian FATS statistics will be the main focus in this presentation.

D. Large cases units

22. In recent years, several national statistical offices have established so-called large cases (or consistency) units (LCU). The purpose of these units is to examine multinational

enterprises and other statistical units that are important for the quality and consistency of statistics. Those units are often engaged in global production.

23. UNECE will present *Results of the survey on large cases units* conducted in March 2013 by the TFGP in order to get a better understanding of the organization of work and the type of analyses carried out by LCUs. The survey information was updated in April 2015. The results are presented in Chapter 6 of the Guide to Measuring Global Production. This presentation provides a brief background, considers the reasoning behind the consistency work and focuses then on the outcomes of the survey. It concludes by giving some recommendations for dealing with large and complex enterprises based on good country practices.

24. *Global Manufacturing and Large Cases Units - Ireland's recent experiences with contract manufacturing.* The data collection from Large Multinational Enterprises in Ireland is centrally controlled by the LCU. The LCU questionnaires were modified to capture production abroad and merchanting activities in line with the economic standards of 2008 SNA and BPM6. The discussion will concentrate on the new data from these additional questions and how it impacted on the Macro Economic Accounts for Ireland.

25. *Profiling in France: Implementation and results.* In France, since 2008, all enterprise groups of any size have been taken into account in profiling. This is a dramatic change. Until now, business statistics still fully rely on legal units. This is the case for dissemination, data collection, data editing, and the processing of businesses accounts as an input for National Accounts. In the near future, all these operations are intended to rest on the “enterprise”, the economic unit newly defined through profiling. The presentation will sum up the reasons for this change and explain the French strategy for profiling.

4. Emerging conceptual issues in global production

Organizers: US Bureau of Economic Analysis (BEA) and CSO of Ireland

Presentations by: US Census Bureau, Statistics Sweden, CSO of Ireland, Eurostat, UNECE Task Force on Global Production, UNSD (to be confirmed)

26. The session will focus on emerging global production arrangements and the challenges they pose to business and macroeconomic statistics, business registers and economic classifications.

27. One emerging issue of particular importance is factoryless goods producers (FGP), which are firms that concentrate on innovation and marketing, and supply service inputs to the production process in the form of technology, know-how and product design, but do not supply the material inputs to the contract manufacturer. The FGP may monitor the quality of material inputs or maintain control over the technical specifications that are used in transformation, and control access and delivery of the final output to consumers. This session will address some of the measurement problems in identifying FGPs and in measuring their activities.

28. In addition, this session will address other emerging issues such as testing and updating the typology of global production arrangements, merchanting of services and other issues related to measurement of units and implications of global production for classifications.

29. *Recording of Factoryless Goods Producers in National Accounts* by the TFGP will introduce the main recommendations of the Guide to Measuring Global Production in respect to FGPs. Current international accounting standards are not very explicit on the classification of FGPs. According to ISIC (International Standard Industrial Classification of All Economic Activities) Rev. 4 companies that outsource completely the production

process should be classified in trade if they do not buy any material inputs prior to the transformation and in manufacturing if they buy (part of) material inputs. The TFGP analyzed the nature of FGPs and came to the conclusion that provision of crucial IPP inputs and managing of the production process should also be taken into consideration. The TFGP recommended as future work to consider classification of FGPs in manufacturing, preferably as a separate subcategory, and made a proposal how the recording of their transactions should change accordingly.

30. *Identifying Factoryless Goods Producers – Efforts to Date* by US Census Bureau. The ability to identify factoryless goods producers and study their characteristics is critical to the definition and classification of businesses that outsource transformation activities. This paper provides an overview of the efforts to date for establishments and enterprises and lists out some of the problems that still need to be overcome.

31. *Factoryless Goods Production in Swedish National Accounts* by Statistics Sweden will present research-based companies that show very strong similarities with FGPs. One specific feature of the research-based producers in Sweden is that, besides the typical FGP activities such as R&D and supply chain management, these companies are also responsible for software development and production testing. They may also be selling services directly to customers using the final product as part of their business, or distributing products supplied by others within their merchandise networks and under their own brand name. So, their output will be a composite of products and services, while value added is mainly services dominated. Economic classification of research-based companies is hard. Separating them as FGPs would probably be a way forward, even in cases where parts but not all fractions of physical transformation is carried out abroad. However, as ISIC Rev.4 does not recognise the FGPs, this classification option is subject to future research.

32. *The European Profiling of Multinational Enterprise Groups and the European Enterprise Groups Register: Crucial Tools for Improving (Business) Statistics* by Eurostat presents the European statistical register on multi-national enterprise groups. It is developed and operated by Eurostat integrating data on cross border relationships of control over legal units. The data are provided by the statistical authorities of the Member States and EFTA countries, and complemented by commercial sources. In the EuroGroups Register Eurostat consolidates all information and reconstruct the legal structure of the multinational enterprise groups. Annual frames are then extracted and distributed to the national statistics authorities to ensure that all the national statistics compilers have the same view on the composition of the multinational groups. For ensuring the quality of the statistical information on multinational groups in the EuroGroups Register and in national statistics the preferred method is to use profiling at European level. Eurostat will present the content of the EuroGroups Register and the general orientation of profiling as well as the roadmap for how this information will be used for European business statistics. The paper can contribute to the discussion on how the new tools can improve statistical information on globalisation by new ways of cooperating and exchanging data across statistical organizations.

33. *Service Related Global Production Arrangements* by CSO of Ireland will, based on case studies, further elaborate discussion on merchanting of services presented in Chapter 10 of the Guide to Measuring Global Production.

34. *Reflecting different production arrangements in ISIC* by UNSD (to be confirmed) will reflect on current discussions in the Expert Group on International Statistical Classifications on how to correspond to the need for addressing different production arrangements in the international standard industrial classification and what kind of criteria would be consistent with previous interpretations of ISIC.

5. Global accounts

Organizer: OECD

Presentations by: OECD, UK Office for National Statistics (ONS), UNSD, Eurostat

35. The world is interconnected and increasingly more complex and therefore there is a need to build on national statistics to analyse global production in a global accounting framework and to be able to better analyse the activities of multinational enterprises for policy purposes.

36. In most countries national supply-use tables are the main vehicle used to understand structural change and, increasingly, countries' integration within global value chains. But the construction and design of these tables has arguably not kept up with the rapid pace of globalisation and in particular the pace of international fragmentation of production. Implicit in analysis using supply-use tables and indeed in their presentation, is the underlying assumption that firms allocated to a particular activity are broadly homogeneous. However, increasingly, the evidence from data collections such as Foreign Affiliate Trade Statistics (FATS) and Trade by Enterprise Characteristics (TEC) reveal that these long standing assumptions no longer hold, if indeed they ever did. Indeed changes in the 2008 SNA for manufacturing services (goods for processing) reinforce this. The pace of globalisation therefore raises questions about whether there is a need to rethink the way that information on activities is presented in supply use tables. Moreover the need for better understanding firms' engagement in global value chains has reinforced the need for a coherent view. But today's statistical information systems continue to develop statistics in a disconnected manner, one that cannot guarantee consistency across different data collections.

37. This session focuses on the work being done on various fronts to appropriately capture globalization and internationalization activities and the role of national statistical institutes in the creation of national extended supply-use tables that can better respond to growing policy needs and that can also improve coherence across the accounts. The session will also address the work being done on the policy front to ensure that profits of multinational enterprises are taxed where economic activities generating the profits are performed. This is in line with the national accountant's goal of measuring the real economic activity that takes place within a country.

38. *Full International and Global Accounts for Research in Input-Output Analysis* will present the joint project between Eurostat and the European Commission's DG Joint Research Centre, which aims to establish an annual production of EU Multi-country Input-Output Tables and a five-yearly production of EU Multi-country Supply, Use and Input-Output Tables (EU-MC-SUIOTs). The EU-MC-SUIOTs constitute a further development of the current regularly published EU and Euro area consolidated SUIOTs. The EU-MC-SUIOTs will serve to support the analyses of the economic, social and environmental consequences of globalisation in the EU by means of studies on competitiveness, growth, productivity, employment and international trade (e.g. global value chains). It shall be complemented with (i) a regular combination of micro and macro data sources to construct the EU-MC-SUIOTs; (ii) careful checking of user needs of various European Commission's DGs for policy analyses, and (iii) an institutional perspective by setting up consistent EU-MC-SUIOTs, recognised by international agencies such as OECD, WTO and UN, and used as such in a Global Multi-country Supply, Use and Input-Output framework.

39. *Extended Supply-Use Tables for Internationally Integrated Economic Accounts* by OECD will discuss work on-going at the OECD to extend the accounting framework used to develop the TiVA database that puts the measurement of globalisation at the heart of the statistical information system, whilst capitalising on (and so introducing coherence across)

existing data collections. The work highlights the importance of classifications of firms within supply-use frameworks using additional characteristics to mere industrial classifications, not only because this provides a more robust basis for tackling heterogeneity (and so improving TiVA estimates) but also because, by moving from value-added to income, it provides the basis for a holistic view of trade and investment within global value chains and indeed other high priority policy areas such as jobs and productivity within global value chains.

40. *New System of extended international and global accounts* by Steven Landefeld (consultant on behalf of UNSD) will discuss plans for a project on developing a system of extended international and global accounts that was approved by the United Nations' Statistical Commission in February. This work will build on work by the OECD, UNECE, WTO, IMF and others in the measurement of globalization. The plan of work will include preparation of a handbook on a system of extended international accounts; further work on global enterprise registers, enterprise classifications, the measurement of asymmetries in bilateral trade and investment; and the continued development of global supply and use tables that will benefit from the work done by OECD and WTO on trade in value added.

41. *Improving the analysis of base erosion and profit shifting (BEPS)* by OECD. BEPS relates chiefly to instances where the interaction of different tax rules leads to double non-taxation or less than single taxation. It also relates to arrangements that achieve no or low taxation by shifting profits away from the jurisdictions where the activities creating those profits take place. Fifteen specific actions are being developed in the context of the OECD/G20 BEPS Project to provide countries with co-ordinated and comprehensive domestic and international instruments that will better align rights to tax with economic activity. This presentation focuses on the objective of Action 11, establish methodologies to collect and analyse data on BEPS and the actions to address it. Important components of Action 11 include developing indicators that can be used to track the scale of BEPS and the impact of countermeasures designed to reduce BEPS over time. The presentation will provide an opportunity to discuss how Action 11 of the BEPS project is using existing national accounts data, new types of data and methodologies, and the possible impacts of changes in BEPS on economic activity as measured in the national accounts.

42. *Towards the UN Handbook on Supply, Use and Input-Output Tables with Extensions and Applications* by Sanjiv Mahajan (ONS) will introduce the work done to date. The underlying aims and principles forming the drivers and content of this new Handbook (replacing the previous version published in 1999), in no particular order cover: (i) incorporation of the revised recommendations of the new international standards for macro-economic accounts and classifications like the 2008 SNA, BPM 6 and ISIC Revision 4, (ii) focus on Supply and Use Tables, (iii) focus on practical compilation guidance rather than a more theoretical elaboration of the methodology, (iv) recommended best practice and acceptable alternatives, (v) extension of the scope to include environmental dimension, (vi) integration theme – Supply and Use Tables, Input-Output Tables and the corresponding physical tables, (vii) attention to compilation issues of countries with a less developed statistical system and (viii) focus on use of General Statistical Business Process Model.

6. Panel Discussion

43. The purpose of the discussion is to follow up on the main findings of the previous sessions, identify the most important questions that economic statistics should address and propose an action plan.

7. Future work and adoption of the report

8. Other business
