

Global Manufacturing and Ireland's Large Cases Unit

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LCU Scope

- ▶ Large multinationals have huge impact on CSO data
- ▶ Consistent data essential for National Accounts
- ▶ Single unit set up responsible for all data for these companies
- ▶ Service and production companies only (financials excluded)

LCU Companies

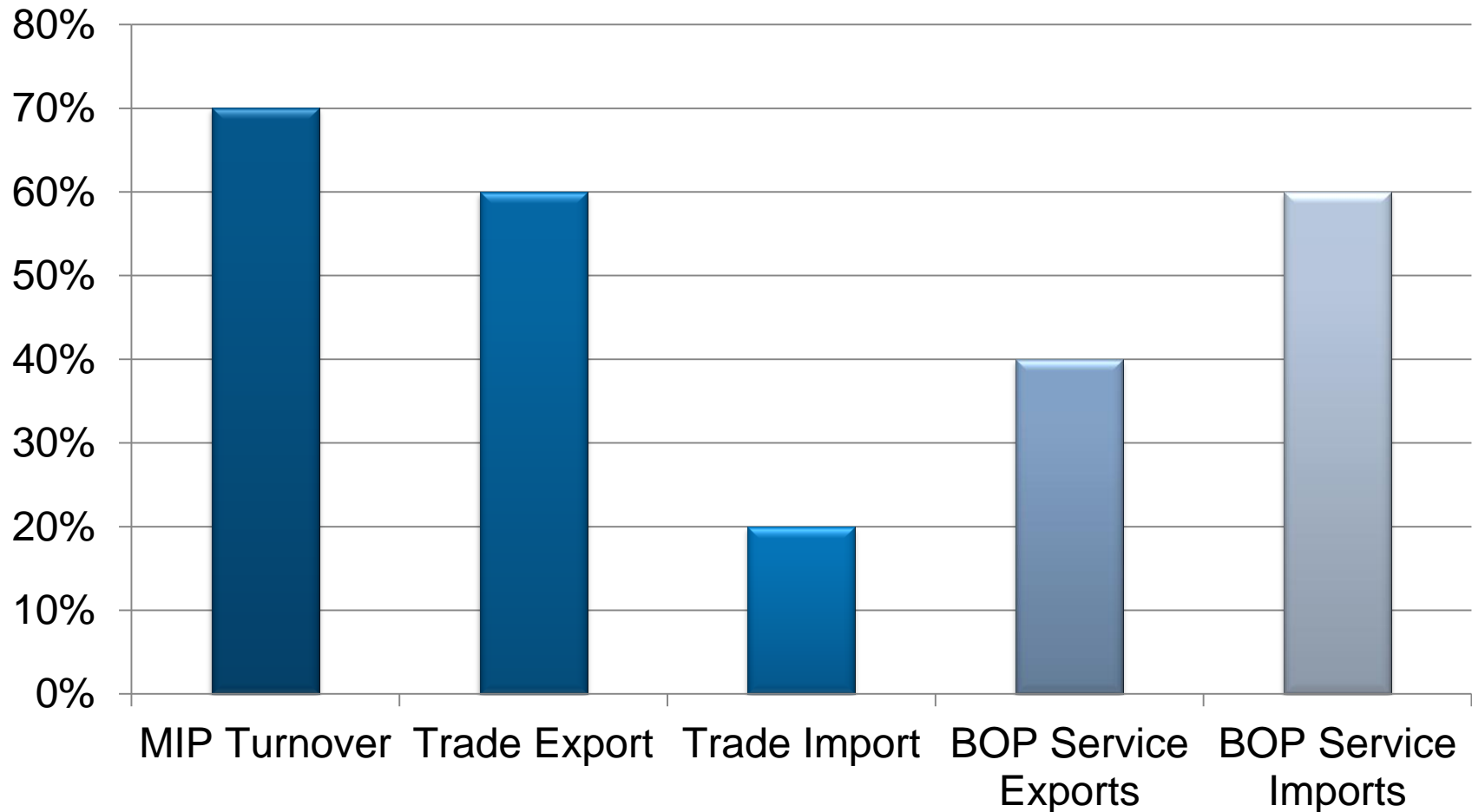
► Multinational sectors

- Pharmaceuticals
- Chemicals
- Food and Drink
- Medical Devices
- Software

► Numbers

- ~ 70 Local Units
- ~ 50 Enterprises
- ~ 40 company groups

LCU Data by Value



LCU Objectives

- ▶ Build good relationships with companies
- ▶ Reduce burden on respondents
- ▶ Improve data quality and consistency
- ▶ Streamline data processing and analysis

LCU Operations

- ▶ Staff : 4 full time, 2 part time
 - 2 Statisticians
 - 2.5 Clerical
 - 0.5 Accountant
- ▶ ~ 1,500 surveys p.a.
- ▶ Data collection, editing and transmission
- ▶ Consistency analysis
- ▶ Company visits
- ▶ IT Development

LCU Survey Areas

▶ Monthly

- Monthly production inquiry
- Monthly services inquiry
- Wholesale price inquiry
- (Merchandise trade)

▶ Quarterly

- Balance of payments
- Quarterly account inquiry
- (Earnings hours and employment costs)

▶ Annual

- Census of industrial production
- Annual services inquiry
- PRODCOM
- SERVCOM

▶ Other

- Business enterprise R&D
- Community innovation survey
- (Business energy use)



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Combined Forms

- ▶ 1 Monthly, 1 Quarterly, 1 Annual
- ▶ Data review of all forms
 - Identify duplication
 - Identify alternative data sources
- ▶ Design of individual forms
 - Data requirements
 - Technical aspects

Identification of Production abroad

LCU_M



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LCU Monthly Inquiry

Before you begin, you will need...

Your CSO reference number and company type

Please note all values must be reported in **thousands**



About this Survey



Data Confidentiality



CSO Contact Details

Enter your CSO reference number:

Company Type

Production ☐

Services ☐

Company Name

Company Name

Month to which figures relate

Select Month

Year

Period Covered

From D / M / Y

To D / M / Y

Please specify currency used in this return

Turnover (excluding VAT) in this period

000's

Merchanting

Total Merchanting Sales

000's

Total Merchanting Costs

000's

Production

Value of Goods Produced in Ireland

000's

Value of Goods Produced Abroad

000's

Please explain any significant differences between data for the current month and previous months

How many minutes did it take to collect the data for this return

Declaration

Return completed by :

Name :

Position :

Identification of Production abroad

LCU_Q

PROFIT & LOSS

Section A PROFIT & LOSS DATA OF THE IRISH UNIT

1. Income

- sale of goods	
(at purchasers)	
adjustments	
of services	-
other income	
Total Income	-

**Processing
Merchanting
Royalties**

2. Expenditure

Sales of Services			Total
ServiceType	Country	Value	

3. Net Interest rece

4. Profit of the Irish

5. Tax payable by t

6. Profit after tax of

Balance Sheet Summary

	Opening Value	Transactions	Revaluations	Closing Value	
1. Assets	0	0	0	0	Check
A-Equity Investments	-	-	-	-	
A-Stocks & Fixed Assets	-	-	-	-	
A-Trade Receivables	-	-	-	-	
A-Other Assets	-	-	-	-	
Total Assets	-	-	-	-	
2. Liabilities					
L-Trade Payables	-	-	-	-	
L-Other Liabilities	-	-	-	-	
L-Shareholder Funds	-	-	-	-	
Total Liabilities	-	-	-	-	

Check : Total Assets - Total Liabilities

0

0

0



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Identification of Production abroad

LCU_A

Turnover		
Turnover from sale of produced goods		,000
Turnover from sale of services		,000
Goods resold without further processing		,000
Other income		,000
Total	0	,000

Subsidies		
State subsidies received		,000
EU subsidies received		,000
Total Subsidies	0	,000

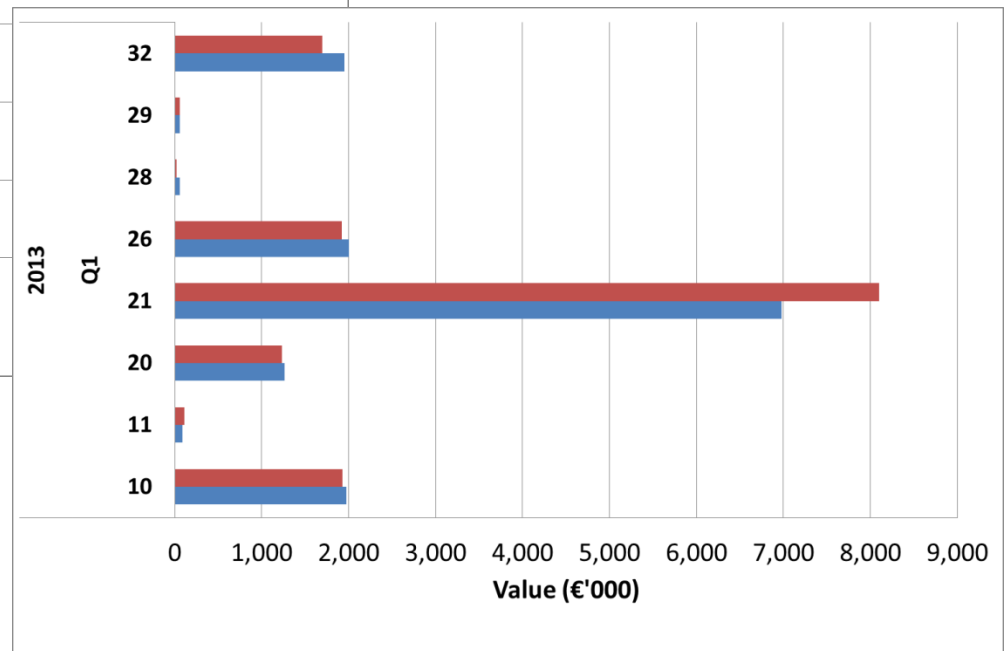
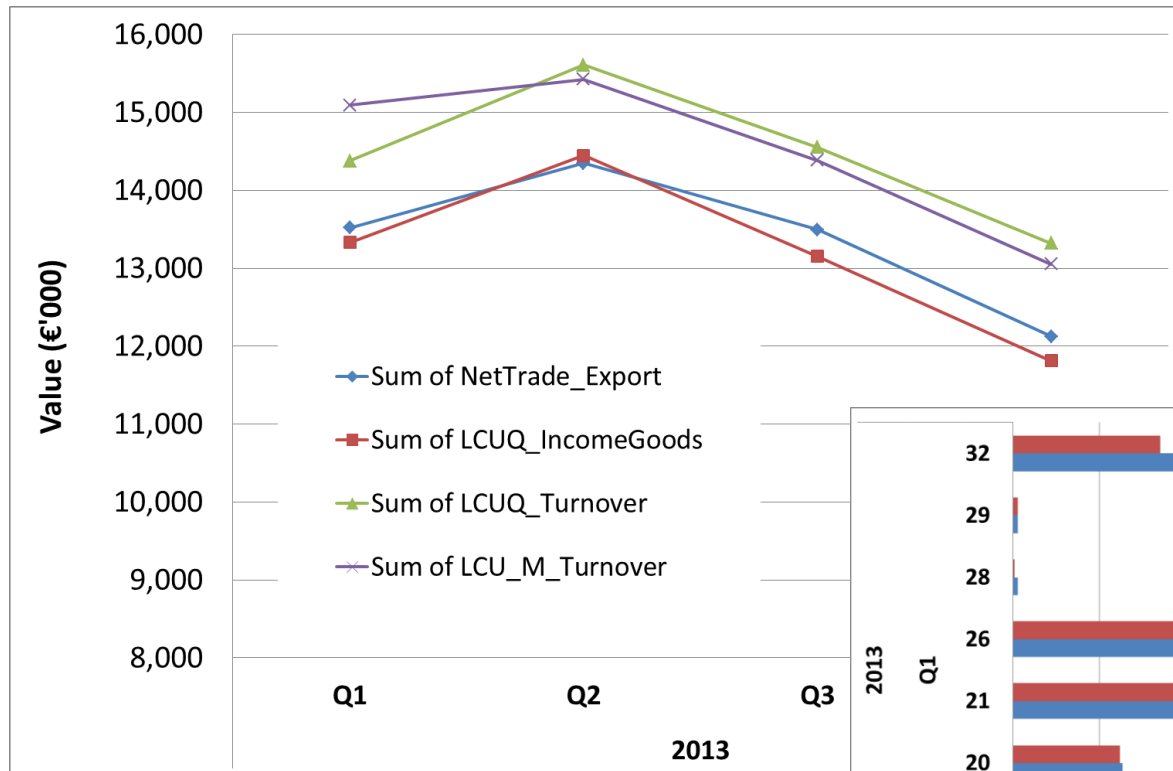
Expenditure		
Purchase of materials		,000
: % of which purchased from affiliates	%	
Purchase of goods resold without further processing		,000
Royalties		,000
Fuel and power purchased		,000
Non-capital expenditure on environmental protection		,000
Rent		,000
Water charges		,000
Refuse charges		,000
Hire and operational leasing of machinery		,000
Wages and salaries		,000
Payments to employment agencies		,000
Freight charges		,000
Other expenditure		,000
Total	0	,000

Indirect Taxes		
Excise duty paid on goods produced		,000
Other indirect taxes paid		,000
Total Indirect Taxes		,000

Profit before corporation tax
Calc
(Turnover + Subsidies - Expenditure - Indirect Taxes)

Additions to Capital Assets		
Land (not built on)		,000
Purchase of existing buildings or structures		,000
Construction or alteration of buildings		,000
Transport equipment		,000
Computer and office equipment		,000
Radio, TV and communication equipment		,000
Plant and equipment for pollution control		,000
Plant and equipment for clean technologies		,000
Other tangible assets		,000
Capitalised Research and Development (R&D)		,000
Computer software		,000
Copyright, patents and licenses for Intellectual Property		,000
Other intangible assets		,000
Total Additions	0	,000
: of which manufactured by enterprise by its own workforce		,000
Disposals of Capital Assets		
Total Receipts from Disposals		,000

Consistency Checking – identification of issues – production abroad



Sum of LCUQ_MerchTransImportAdjust	200
Sum of NetTrade_Import	330
Sum of Trade_Export	726
Sum of LCUQ_MerchTransExportAdjust	400
Sum of NetTrade_Export	1,126
Sum of LCU_M_Turnover	1,180
Sum of LCU_M_RepProd	1,124
Sum of LCUQ_GoodsSold	1,115
Sum of LCUQ_PriceAdjust	0
Sum of LCUQ_IncomeGoods	1,115
Sum of LCUQ_ServiceSold	140
Sum of LCUQ_OtherIncome	0
Sum of LCUQ_Turnover	1,255
Sum of LCUQ_COGS	358
Sum of LCUQ_ServicePurchased	378
Sum of LCUQ_LabourCost	17
Sum of LCUQ_Deprec	20
Sum of LCUQ_OtherCosts	0
Sum of LCUQ_CostsTot	772
Sum of LCUQ_Interest	0
Sum of LCUQ_Tax	58
Sum of LCUQ_ProfitIEPostTax	425
Sum of LCUQ_ConsolProfit	425
Sum of LCUQ_RoyaltyCosts	144

Contract Manufacturing Implications for providers of data

- Led to reexamination of cases of merchanting with providers
- Greater clarity following the new standards
 - ▶ What is contract manufacturing
 - ▶ What is merchanting
- Surveys are completed in line with our instructions
- Companies do not really understand *what* data we are looking for or *why* we are looking it – need for outreach

Contract Manufacturing Implications for Users of our data

- Frameworks or models used to understand our macroeconomic data can be significantly impacted
 - ▶ Ratios of Output to value added
 - ▶ Ratios of Exports to GDP
- Implied results can be misleading – focus on monthly trade or monthly production as leading indicators
- Substantial re evaluation required



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Misunderstanding/Understanding

"The GDP numbers, this very strong growth that is projected for this year of 4.7pc, has to be taken with more than the usual pinch of salt in terms of indicating as to where the economy is going," said Council chairman John McHale.

The Fiscal Advisory Council said it wasn't known which companies are doing this because data provided to the Central Statistics Office is confidential. It also speculated that it was "one or a few" and that it was most likely in the high-tech sector.

Net exports expanded by 10.4% over the same period, although this figure is likely overstated by the practices of multinational companies surrounding contract manufacturing.

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The Department of Finance has projected growth this year of 4.7pc, but the Fiscal Advisory Council has said gross domestic product in the first half of the year was inflated by so-called contract manufacturing involving possibly just a handful of companies.

A key factor making the measurement of economic welfare more complicated is globalisation. As shown in the graph, imports have risen as a share of final demand in EU economies such as the Netherlands and Germany, as well as in Ireland. Increasingly when you buy a good, or even a service, parts of it have been produced in many different economies, making accounting for the beneficiaries of the final sale difficult.

Over the last few years a number of new developments have

made Irish economic statistics less easy to interpret



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information notice

Contract Manufacturing

The National Accounts and Balance of Payments present data on exports and imports of goods and services. These series include adjustments to the primary data sourced from the International Trade monthly series of imports and exports of goods. The reasons for these adjustments usually relate to the recognition of a change in economic ownership taking place for the following reasons:

Contract manufacturing (also called **goods for processing**) - where a change in ownership occurs at a different point in time compared to the timing of a cross border movement of goods.

Merchandising - to include the transactions related to merchandising¹ because they are not already included in the international trade i.e. these transactions do not cross the border of the Irish merchant.

Conceptual adjustments - are related to valuation of goods, in some cases exports are undervalued. In such cases statistical interventions are required to balance the impact of these transactions across all primary statistics.

The purpose of this note is to address the issue of contract manufacturing and the impact it is currently having on the National Accounts results. There has been considerable comment and analysis in the print media and elsewhere attributing undue significance to contract manufacturing in explaining the improved economic results reported for the Irish economy in the quarters of 2014.

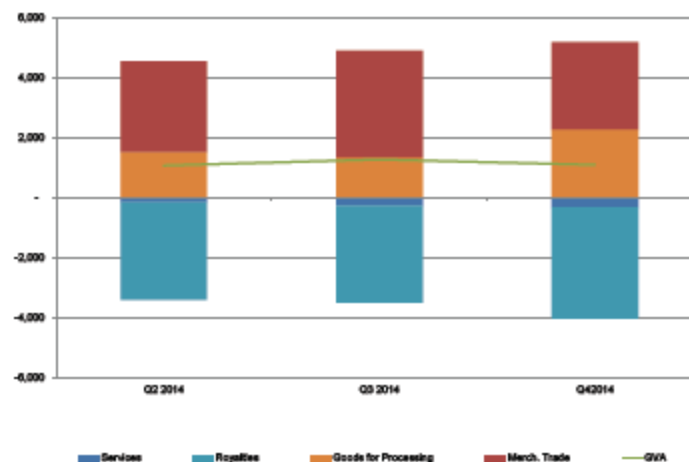
Contract manufacturing occurs where a company in Ireland engages a company abroad to manufacture products on its behalf (and vice versa). These products could be either new products or products formerly produced by the Irish entity. Crucially the inputs used in this production process remain in the ownership of the Irish entity and a change of economic ownership is not deemed to occur during this subcontracting process. Instead the foreign contract manufacturer supplies a manufacturing service to the Irish entity and never takes ownership of the product being produced.

Once the production cycle is completed for this product, it is then sold to a customer abroad and a change of economic ownership takes place between Ireland and the country of the buyer. The export of this good is then recorded in the Irish National Accounts and Balance of Payments. The value added that accrues to Ireland from this production and ultimate sale of a product is the sale price of the good produced less the following costs associated with production:

- Import of manufacturing services
- Supply of material inputs used in production
- Import of royalties for use of the patents
- Imports of other services incl. transport

Figure 1 below illustrates the significance of the key elements in this production process and the ultimate Gross Value Added (GVA) generated in Ireland by companies that are engaged in both contract manufacturing and also manufacturing (it is not possible to distinguish between the data for these two activities) carried out on their own account in Ireland.

Figure 1 Contract Manufacturing and Own Account Manufacturing Activities Q2 – Q4 2014



In the case of the additional products made under contract manufacturing arrangements for Irish companies in 2014 the related addition to value added over and above wages and salaries paid is not particularly significant in explaining the recent growth in Irish GDP (+4.8% in 2014). Instead the observed growth is more broadly based and reflects improved domestic demand and amongst other things the pick up in activity for Irish companies not linked to Multi National Groups.

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¹ See p.70 Manual of Changes between ESA 1995 and ESA 2010 <http://cs.o.ie/shorturl.aspx/234>

Overall assessment

- Old models or assumptions may no longer apply - export led growth
- Gross presentations - production, exports, turnovers may not give a reliable picture of GVA or GDP trends
- Consequences of not identifying production abroad
- Asymmetric recording of inputs and outputs
- Merchanting, Processing and FGP challenges in distinguishing between the three

National Accounts Large Cases Unit

12-13 November 2014

Thank You



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