FACTORYLESS GOODS PRODUCERS (FGPs)

Background

➤ The Guide for measuring Global production elaborated by the Task force on Global Production (TFGP) which was presented at the 2015 Conference of European Statisticians contains a substantial part dedicated to the statistical treatment and identification of FGPs (Chapters 2 and 5 mainly).

➤ Concerning FGPs, the main recommendation of this guide is to keep them classified in trade as ISIC presently proposes…

➤ …but it is also recommended that FGPs are separately identified and flagged in the business register.

Background

➢ This separate identification will allow further analysis of the characteristics of FGPs and will provide information for a possible future revision of international classifications to include FGPs in respective manufacturing classes.

➢ For these reasons, the Eurostat Classifications Working Group (2015) decided to set up a task force in order to look into the methodological aspects of identification of FGPs.

➢ In parallel, the United Nations Expert Group on International Statistical Classifications has also a Technical sub-group working on this subject.

➢ Synergies between the 2 groups should be ensured.

Composition of the EU Task force

The Task force is composed by representatives of:

- ➢ Denmark,
- ➢ France,
- ➢ Italy,
- ➢ the Netherlands,
- ➢ Slovenia,
- ➢ Finland,
- ➢ Sweden,
- ➢ United Kingdom and
- ➢ Switzerland
- ➢ UNECE also requested to be an observer in this Task force.

Mandate of the EU Task force

1.   Analyse the existing documentation on the subject.

2.   Analyse the Typology of global production arrangements and transactions involved proposed by TFGP and check its completeness.

3.   Identify indicators and thresholds to help the correct identification of FGPs and contractors in FGP relation;

4.   Report on limitations of these indicators.

5.   Identify sources for this auxiliary information. Propose a combination of European Statistic System surveys or administrative data to help the identification of these enterprises. Propose if necessary a module of questions that could be added to an existing survey to target FGPs.

Mandate of the EU Task force

6.   Draft a set of rules to help identifying FGPs

7.   Liaise with other international organisations dealing with this issue for cross-fertilisation and possibly synchronisation purposes

8.   Report the main conclusions to the Eurostat Standards Working Group. Inform also National Accounts, Structural Business Surveys, Balance of Payments, and Business Registers working groups.
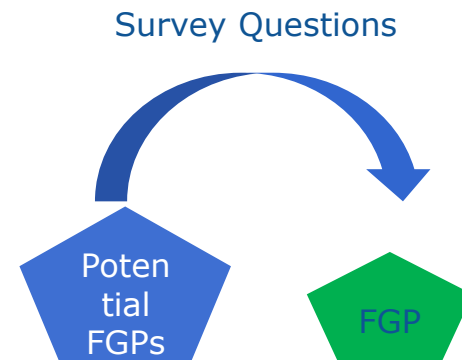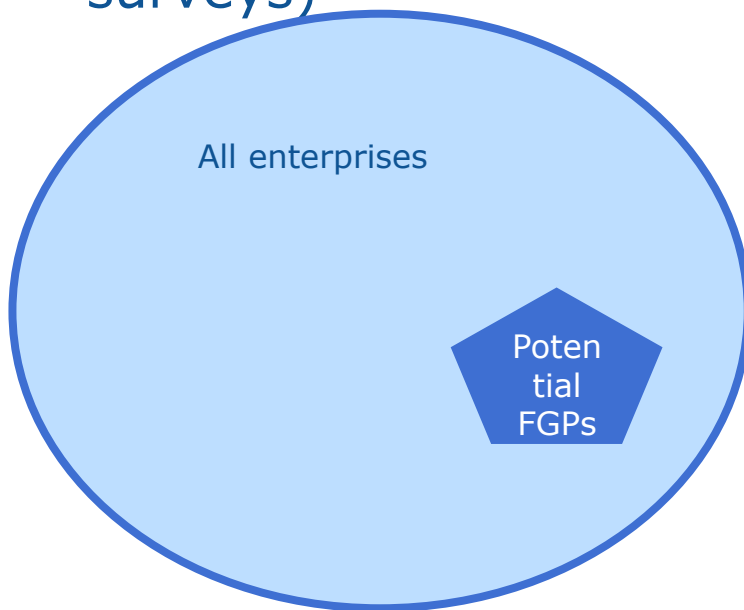
Work conducted until now

The Task force had a kick-off meeting in Luxembourg on 10/11/2015.

Two step methodology

1 - Reduce the scope (with indicators in existing surveys)

All enterprises

Potential FGPs

2 – Verify that it is a FGP

Survey Questions

Potential FGPs

FGP

Areas of ISIC/NACE where FGPs can be identified

- Head Offices,
- Trade
- Branding
- Processing (Manufacture)
- Engineering
- Design (division 71 and 74)
- Computer programming (division 62)

Characteristics of FGPs (1)

- Low employment and high turnover
- Low employment and high production
- Low employment and high profit
- Low employment and high employment costs
- Low capital expenditures
- Low materials or fuels inventories
- Low working in progress inventory
- Low inventory for finished products
- High purchases of manufacturing services and high sales of goods

Characteristics of FGPs (2)

- High purchases of manufacturingservices and low purchases of goods for resell

- If Principal and Contractor are in EU: VAT imports are higher than Intrastat

- Change from production of goods to non-production of goods

- Structure of employment in terms of ISCO and ISCED showing no occupations in production. The absence of workers can help us to identify a possible FGP.

Need to prioritize

- Considering the length of this list of indicators, the Task force felt the need to prioritize them. An assessment of the discriminatory power of each indicator helped the Task force to hierarchize the indicators.

- "High purchases of services and high sales of goods", "High purchases of services and low purchases of goods for resale" and "High production associated with low employment" are the indicators that best allow for identification of FGPs. Other indicators are still helpful in restricting further the field of observation and can also be used in the case of non-availability of other data.

Sources (1)

- Structural business surveys
- Balance sheets
- Company accounts
- Tax offices
- Business register
- Investment surveys
- Tax administrative information
- Surveys on services and goods not crossing the border
- VAT data

Sources (2)

- Extra and Intrastat
- R&D expenditure surveys
- PRODCOM
- Structure of earnings surveys
- *European Sales List (VIES)*

Other possible sources mentioned were:

- Land use/land cover register (to check if a factory exists).
- Patent information.
- Information from business associations which may know about the existence of FGPs in their sector

Sources (3)

- SBS seems to be the best source because as an ESS survey, it has a certain degree of harmonisation and covers most of the indicators considered as relevant. The cons of this survey are that, like all surveys, it is not exhaustive and it covers only a sample of the enterprises. FGPs are very often smaller enterprises with less chance to be part of the sample.

- Administrative data like balance sheets cover all enterprises but do not contain all the indicators considered appropriated.

Thresholds

- Empirical tests should be conducted on some specific NACE classes to detect the "normal" values for the indicators in these classes and to determine the thresholds to consider for enterprises to be classified as potential FGPs.

- To base thresholds on ratios rather than on quantities.

Questions

For the moment the Task force has not yet worked really on the elaboration of questions but during the Task force meeting the following characteristics were identified as essential:

- They should complete the information that could not be obtained using indicators. Question shouldn't re-ask information already available
- They should be understandable for the respondents
- They should be a limited number
- They should clarify what is specific to FGPs

National tests (1)

- Sweden conducted tests on enterprises coded in NACE 46 and 71 using the following indicators:
    - Percentage of purchasing of services for production/manufacturing in the total cost of raw materials
    - Percentage of purchasing of services in the total costs (excluding personnel costs and depreciation)
    - Average turnover per employee
- Italy conducted tests on enterprises coded in NACE 46 using balance sheets. The indicators used were:
    - % cost of service purchased on total costs excluding employment costs and depreciation
    - % of workers in total number of employees of the enterprise

National tests (2)

- Finland has analysed data for 3 indicators:
  - Average salary of a firm compared to the average salary of the firms in the same industry (NACE 26)
  - Proportion of R&D costs compared to total costs (FGPs may purchase R&D inputs from external providers, but it's not a necessary condition, so we cannot exclude a firm having a low or zero value able to be a FGP. A high proportion of R&D costs is still a strong signal for factoryless goods production)
  - Turnover per employee

- Conclusion: these indicators indeed help reducing the universe of enterprises which can be considered as FGPs but they are not sufficient to determine their condition as FGPs and further questions would be necessary.

Thank you for your attention