Working Party on National Accounts

Norwegian Units Involved in Global Manufacturing  Some practical and principal problems by Trude Evensen and Tore Halvorsen

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Norwegian Units Involved in Global Manufacturing

Some practical and principal problems

by

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OECD NAWP meeting October 2012

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National accounts
Background

• Structural Business Statistics based on financial tax data (accounting data) includes production income from activities abroad to a larger extent than expected
  – Can be identified as large imbalances between supply and use
  – MNE: challenge to allocate output and value added to national economies

• New principles for how to record processing and merchanting activities in SNA 2008 and BPM6

• Both factors led to a project in 2011 with the aim to get more knowledge about practical and principal problems related to global production

• Statistics on external trade:
  – Goods: based on customs declaration (goods crossing the boarder)
  – Services: quarterly survey of resident non-financial enterprises
  – External trade statistics in line with 1993 SNA – not with 2008 SNA

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Production abroad—what do we know (1)?

• **Prodcom-survey (manufacturing)**
  – Includes a question about *part (percent) of the reported sales which are produced abroad*
  – 10 percent of reported sales in 2010 were reported as production abroad
  – The 10 largest units with output abroad: 59 % of measured output abroad
  – Uncertain data

• **Goods for/from processing – export and import**
  – There are procedure codes that are supposed to be used for goods sent abroad for processing, and for reimported goods after processing.
  – The procedures are not always followed
  – An analyse of the results a few years ago showed that the data seemed not rational
  – The procedures are now improved, implying they may be more easy to understand and follow in the future

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Production abroad—what do we know (2)?

• **Import and export of processing services** (from the survey)
  
  **Contract work and other manufacturing services**
  
  – **Income**: Export value of contract work and other manufacturing services from non-resident costumers. Includes, among else, processing services
  
  – **Cost**: Import value of contract work and other manufacturing services paid to non-resident suppliers. Includes, among else, processing services

• **International sourcing (IS)**
  
  Sample survey in 2007 and new survey in 2012, initiated by Eurostat
  
  – IS in a specific period, and plans for IS in the future
  
  – To which countries and which business functions?
  
  – Motivation and barriers for IS
  
  – Uncertain data (but broader sample in 2012 than in 2007)
  
  – **Problems (in our context):**
    
    – Do not separate between goods sent abroad for processing, merchanting and other kinds of IS.
    
    – No economic data available from the survey
Study of micro data for some enterprises with production abroad

• Selected units:
  - Units in the manufacturing industry, that in PRODCOM reports the largest values related to production abroad (suppliers of machinery and equipment to oil and gas extraction, and manufacturing of ships, oil platforms and modules)
  - A couple of units previously in the manufacturing industry (production sourced out to abroad)
  - A few service providers

• Study of reported micro data:
  - External trade in goods
  - External trade in services
  - SBS, of this: The copy of the standard financial reports that the tax authorities collect from the enterprises
  - The companies annual reports
  - Contact with selected companies

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Conclusions

• Reported sales revenues from customers abroad do not fit with reported export in the external trade of goods statistics
  → The discrepancy between calculated output and exports in the NA is significant and causes balancing problems
  – The discrepancy is independent of the change of principles due to processing in SNA/ESA

• Difficult in practise to distinguish between processing, merchanting and production in subsidiaries
  – example challenging to make a decision about economic ownership to raw material
  – An answer: contracts with the supplier abroad usually follow a franchising model

• Extra data are needed to:
  – bring the export and import data in the NA consistent with data for output and intermediate consumption – first priority
  – calculate exports and imports due to processing and merchanting in line with the revised principles in SNA

• The Norwegian Central Register of Establishments and Enterprises should be able to track and “mark” all domestic units with sales revenues from production abroad - not only those classified in manufacturing

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