

Data collection of Manufacturing Services in Germany

Meeting of the Group of Experts on National Accounts, Geneva, 18.-20. May 2016

Jens Walter, Balance of Payments and IIP Division

Outline

1. Background
2. Data collection of manufacturing services
3. The collection of the purchases and sales of goods
4. Lessons learned
5. Conclusions

1. Background

- In the last decades, a more and more globalized economy has created new opportunities but also new challenges for producers to compete in the world market.
- Challenge for manufactures to develop new strategies to organise the production chain most efficiently in the globalized economy.
- Answer to the challenge: Outsourcing !
- The most basic form of international outsourcing implies a domestic principal who sends goods abroad to a foreign manufacturer for processing. After processing, these goods either return to the home country of the principal or are sold abroad.
- Since the introduction of the BPM6 in 2009 fees for “manufacturing services of goods owned by others” are recorded as services while the corresponding flows of goods must be eliminated (import/export of goods for/after processing) from the IMTS source data which are used to compile the goods account.

1. Background

- To calculate the fee paid to the processor BOP compilers cannot simply use the difference between the value of the goods sent for processing and their value after processing, because this may include material acquired by the domestic principal etc. (§ 10.70 BPM6).
- Therefore, BOP compilers had to develop new collection strategies in order to adequately comply with the new international requirements.
- Furthermore, it became necessary to adjust the IMTS source data accordingly.

2. Data collection of manufacturing services

2.1. The direct reporting system

- As a core element to collect BOP relevant service transactions Germany uses a direct reporting system which can be described as a cut-off survey.
- All enterprises, public authorities and natural persons are obliged to report on a monthly basis all their service transactions if the value of a single payment exceeds the reporting threshold of 12.500 Euros.
- Having a well-functioning reporting system in place the collection of data on fees for manufacturing services was integrated by adding a specific transaction code to the already existing codes for other services etc.
- The respondents have to report all transactions with non-residents via a generic (electronic) form.

2. Data collection of manufacturing services

2.2. The collection of manufacturing service fees

Reporting form:

Payments relating to external transactions				
Report pursuant to section 59 et seq of the Foreign Trade and Payments Regulation (AWV)				
Month/Year:	12/2015	Bank code:	01234567	
Respondent:	Company XYZ			
Branch of activity:	Production			
Address:	Road, City			
Phone (-extension):	+49 (123) 456 789			
Contact:	reporter			
E-mail-address:	reporter@companyxyz.de			

1	Purpose of payment	Transaction Code	Country	Incoming payments	Outgoing payments
				Amounts in thousands of Euro	
	Manufacturing service	567	France		27,861

2. Data collection of manufacturing services

2.2. The collection of manufacturing service fees

- To support the respondents when filling in the forms the Deutsche Bundesbank published an explanatory note on the coding list. It describes inter alia for “manufacturing services on inputs owned by others” the kind of transactions corresponding to this service item and explains differences between the codes.

567 Contract production

Charges for the manufacturing of goods that are not owned by the contract producer. The goods are provided by the principal. Also included in the charges are any components that the subcontractor itself procures and uses during the production process. The goods for processing do not have to leave the country.

Typical cases of contract production include:

- Refining of crude oil
- Liquefaction of natural gas
- Refilling and packing of goods supplied in bulk into retail packaging
- Product assembly
- Slaughtering and butchering of animals
- Recycling of goods

Special features

997 Purchase of finished goods in Germany from foreign owners, acquisition of goods by the resident principal abroad and sale of finished goods abroad by the principal.

3. Adjustments necessary in the goods account

- To adjust the goods account in accordance with the BPM6-Manual compilers must differentiate between
 1. goods, which are purchased by the principal abroad and sent directly to the processor to be used as an input,
 2. the sale of the processed goods by the domestic principal to non-residents,
 3. the cross border movements of inputs/final products exported/imported by the principal.
- In Germany the related transactions to 1 and 2 have to be reported within the framework of the direct reporting system as described above.
- In case 3, compilers must eliminate all goods flows from the IMTS source which are related with processing as no change of ownership took place.
- In Germany, these flows can be identified in the IMTS source as the FSO collects additional information on the reason of the export or import (the so-called Nature of Transaction).

3. The collection of the purchases and sales of goods

Example

A German company exports raw materials worth 100 to France for processing. The company also buys in addition raw materials for processing worth 25 from a Spanish company. The processing fee is 15. After processing goods worth 90 return to Germany and finished goods worth 60 are sold to a Belgium company

Payments relating to external transactions
Report pursuant to section 59 et seq of the Foreign Trade and Payments Regulation (AWV)

Month/Year:	<u>12/2015</u>	Bank code:	<u>07654321</u>
Respondent:	<u>Company abc</u>		
Branch of activity:	<u>Production</u>		
Address:	<u>Road, City</u>		
Phone (-extension):	<u>+49 (123) 456 789</u>		
Contact:	<u>reporter</u>		
E-mail-address:	<u>reporter@companyabc.de</u>		

Purpose of payment	Transaction Code	Country	Incoming payments	Outgoing payments
			Amounts in thousands of Euro	
1 Manufacturing service	567	France		15
2 Purchases of row material	997	Spain		25
3 Sale of final goods	997	Belgium	60	

3. The collection of the purchases and sales of goods

Example

- The IMTS provides the data for total goods crossing the German border. The movements of goods between Germany and France with NoT 4 and 5 are then to be eliminated from the BOP data:

<u>Direction</u>	Country	Value	Nature of Transaction
<u>exports</u>	France	100	4
<u>imports</u>	France	90	5

4. Lessons learned

- The current data collection and compilation of “manufacturing services of goods owned by others” - including related goods transactions - follows the recommendations of the BPM6 and its Compilation Guide.
- The German system currently in place produces satisfactory data.
- However, the system has shown some weaknesses:
 - For domestic processing, however, the domestic seller of the raw material or the domestic buyer of the processed goods within the country does not always know that the goods will be/have been processed in the country and therefore assumes a cross-border movement of goods with the consequence, that these transactions are not declared.
 - The reporting population was not known before the changeover and therefore the current population of reporters might not yet be exhaustive i.e. current time series must be interpreted with care.
 - Due to confidentiality reasons cross checks on a micro level with companies that report imports and exports related with processing (NoT codes 4 and 5) are not possible.
 - We cannot conduct a quality check if the following assumption holds due to missing information:

$$\begin{array}{l} \text{raw material purchased abroad} \\ + \text{ goods exported for processing} \\ + \text{ processing fee} \end{array} \quad \sim \quad \begin{array}{l} \text{sales of final goods abroad} \\ + \text{ imports after processing} \end{array}$$

5. Conclusions

- The collection of manufacturing services directly from enterprises has proved to produce reasonable results.
- In 2015, a total number of 1,100 companies reported processing fees paid/received with a value of 3.8 billion Euros/ 4.3 billion Euros.

- However, the “German model” cannot be seen as a blueprint for other countries!
 1. The promptly adaption of the collection system to the new methodology was easy because a well-established direct reporting system was in place.
 2. Furthermore, the BOP Division benefits from the fact, that the FSO can provide IMTS data in a breakdown necessary to eliminate all related cross border movements of goods to bring the goods account in line with the new requirements.
 3. It has become evident, that Germany still has to work on data quality. From the current perspective, the exchange of micro data between the FSO and the Bundesbank could be a major step in this direction.

Thank you for your attention!

jens.walter@bundesbank.de