Central Statistics Office of Ireland

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14.137. Ireland is a small open economy that given its taxation structure has become a well-known location for foreign-owned multinational enterprises (MNEs). As an indication of the dominance of MNE in the Irish economy, in 2016 gross value added for the following MNE dominated sectors represented 39% of the total: Reproduction of recorded media; Manufacture of chemicals and chemical products; Manufacture of basic pharmaceutical products and pharmaceutical preparations; Manufacture of computer, electronic and optical products; Manufacture of electrical equipment; Manufacture of medical and dental instruments and supplies; Publishing activities; and Information service activities.

14.138. Accounting for MNEs and their transactions, especially given growing globalisation has increasingly seen more parts of the manufacturing process move to other countries which presents a complex undertaking for the Central Statistics Office (CSO).

14.139. In this regard the CSO has a dedicated unit (the large cases unit (LCU)) for MNEs and which has built up a relationship with the 70 or so MNEs (non-financial) in Ireland. The LCU is responsible for all contact with the MNEs and for example all CSO questionnaires are sent from the LCU.

14.140. In examining different sources and consistencies from NMEs, 3 types of goods for processing adjustments required for the balance of payments have been identified in Ireland.

14.141. Type 1 - Goods sent abroad and returned after processing (the 'classic case'). The national enterprise decides to outsource part (or all) of the production process. The goods are shipped abroad (recorded as exports in the IMTS) and after processing shipped back (recorded as imports in the IMTS), all while there has been no change of ownership. For the balance of payments, the exports and imports of the goods are recorded as zero and the processing fee is recorded as an import of service under 'Manufacturing services on physical inputs owned by others'.

Irish example of type 1

14.142. A multinational pharmaceutical enterprise has its European manufacturing site located in Ireland. Goods are shipped into Ireland where the product is finished and returned to the original country. Notably the value of exports in IMTS far exceeds imports (suggesting significant value added undertaken in Ireland), however there is an inconsistency with the company accounts. Discussion with the enterprise reveals that the production in Ireland is on a fee basis and no ownership is taken of the inputs or the outputs.

14.143. This information requires the CSO to make downward adjustments to IMTS data and record only exports of manufacturing services on physical inputs owned by others from the factory for the balance of payments, i.e. remove goods imports, remove goods exports, and record processing services exports (fee). The example shows the importance of the adjustment and how trade data can't be used in isolation.

14.144. Type 2 - Goods sent abroad for processing and then sold abroad. Goods produced in Ireland are sent aboard to be finished and then sold in another economy without coming back to Ireland. Ownership of the goods remains with the Irish enterprise up until they are sold.

Irish example of type 2

14.145. An electronics manufacturer based in Ireland with a plant of 300 workers is part of a global structure where a lot of the production is sent abroad for further testing and processing. The finished goods are sold without being returned to Ireland.

14.146. Adjustments required for the balance of payments are:

- increase the value of the export value to the final sale value;
- if further materials, owned by the Irish enterprise, are provided directly to the foreign processor then these need to be recorded as Irish imports; and
- record the processing fee as a service import.

14.147. A good source of data can be found by comparing IMTS (at 'cost price') with company accounts.

14.148. Type 3 - Goods purchased, processed and sold abroad. This is common for MNEs based in Ireland where materials are purchased abroad (which are not shipped to Ireland) and then are processed abroad before being finally sold abroad. The Irish MNE at all times, up until the sale, has ownership of the goods but they never enter Ireland.

Irish example of type 3

14.149. A pharmaceutical company based in Ireland arranges the manufacture of pharmaceuticals abroad. Bulk raw materials are purchased from abroad by the Irish company, there are provided to the processor who transforms the materials into the final goods. The goods are then sold to the final consumer without ever entering Ireland. The Irish company considers itself the owner of the inputs until the product is sold and the inventory is recorded in the accounts of the Irish company.

14.150. In this example the input materials are relatively cheap while the outputs are expensive drugs. The Irish company makes a sizeable royalty payment as an intermediate input into the process.

14.151. The CSO makes the following adjustments to the balance of payments accounts:

- increase the value of the export value to the final sale value;
- the materials provided by the Irish enterprise to the foreign processor need to be recorded as Irish imports; and
- record the processing fee as a service import, namely 'manufacturing services on physical inputs owned by others'.

14.152. Type 3 shares commonalities with factoryless production (where the principal specifies the production, provides non-material inputs and knowhow (IPP, blueprints, etc.), and has ownership of the final good). However, the crucial difference is that the processor sources the material inputs. The principal in a factoryless goods arrangement is classified as a distributer and the activity is treated in the same way as merchanting.

Lessons from the CSO

14.153. Goods for processing (and merchanting) adjustments in the balances of payments are significant. For example in 2016 'net exports of goods under merchanting' represented around 2% of GDP while the adjustments made to goods exports and imports to account for processing abroad represented 25% and 4% of GDP respectively. These are major amounts and point to a real need to understand, capture and record these balance of payments flows. The amounts recorded also suggest that corporations increasingly choose to send goods overseas for further production.

14.154. Questions are asked as in what is meant by 'processing'? According to BMP6 this type of manufacturing covers processing, assembly, labelling, packing and so forth. This leaves gaps and questions can arise for compilers.

14.155. For mirror data to be of use, countries need to publish goods for processing adjustments (to goods imports and exports). In many cases this is company level data and introduces confidentiality issues in sharing and exchanging of microdata.

14.156. In summary, for Ireland globalisation has seen an increase in production arrangements where the production process is split between different countries. The need to follow the BPM6 principal of ownership makes identifying these arrangements a challenge, more so considering that most of these arrangements are undertaken by MNEs and this is where the CSO has gained most experience. In this context the CSO has taken two approaches: comparing source data across the organisation (IMTS, balance of payments, PRODCOM[1], structural business survey, etc.); and the LCU which monitors all statistical outputs of MNEs.

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[1]. EU Community survey of industrial production (compulsory for EU Member States by regulation).