

# **National Statistician's Committee for Advice on Standards on Economic Statistics**

NSCASE(25)04

## **Globalisation Merchanting and Factoryless Producers – Paper Two**

### **Executive summary**

1. This paper is a follow up to an initial paper, presented to NSCASE in October 2023, on the topic of handling Factoryless Goods Producers (FGPs) in the national accounts.
2. The central consideration is whether the Office for National Statistics (ONS) should base their treatment of FGPs on:
  - a. a global manufacturing basis which is the approach included in the System of National Accounts 2025 (SNA2025) / Balance of Payments Manual 7 (BPM7) international standards; or
  - b. as merchanting which is the current, less formal, guidance that was published by the United Nations Economic Commission for Europe (UNECE) in 2015.
3. Until recent years, ONS's only collection of data relating to FGP was non-attributable to FGP activity and in-part incidental, gathered from responses to merchanting questions, and/or manufacturing, maintenance and on-site processing questions on the International Trade in Services survey (ITIS). This was not a notable problem because the concept of FGPs was not well formed and there was no reporting of FGP activity specifically.
4. However, in response to the growing prominence of globalisation, ONS formed its Large Case Unit (in 2019) and subsequently a globalisation team. Their work – which to date has identified few FGPs from initial investigations among a small number of multi-national enterprises (MNEs) - is based on treating FGPs on a global manufacturing basis. The globalisation team has been able to implement initial adjustments in national accounts statistics for global manufacturing arrangements (including FGPs), with more businesses included in Blue Book/Pink Book 2025.
5. To take the next step and produce comprehensive and accurate statistics that incorporate FGP arrangements for the wider economy, ONS needs a new comprehensive data source that provides all information required for FGP identification and ensures no duplication within merchanting statistics. In defining that data source, ONS needs to confirm its approach to FGPs
6. Option 1 would be to refocus its treatment of FGPs, to be merchanting, which would bring it into line with the outgoing guidance which ONS has not been compliant with due to limitations in data source. We struggle to see any benefits from this approach, as even the current data source (International Trade in Services survey questions) is not designed for this purpose and would need a major overhaul
7. Option 2 is to follow the BPM7/2025 SNA standards and treat FGPs as global manufacturing. Tentative feedback from NSCASE in October 2023 was that this is the appropriate route. ONS strongly agrees because of benefits: a) consistency with other countries' approaches, which is extremely important for helping to reduce asymmetries between countries' statistics, b) the natural fit from

an economics point of view of treating FGPs as being involved in manufacturing, c) adherence to international standards, and d) retaining consistency with the existing BPM7 manufacturing-based approach of the globalisation team.

8. We are unable to support this paper with details of the impacts on statistics under each approach. This is because of the infancy of the globalisation work and inadequate survey data. However, it is believed that both options might produce substantial revisions to both merchanting and total trade statistics, and we have listed sources of likely revision.
9. We hope this paper provides clarity and encourages feedback about aspects that ONS should consider in its globalisation strategy development work.

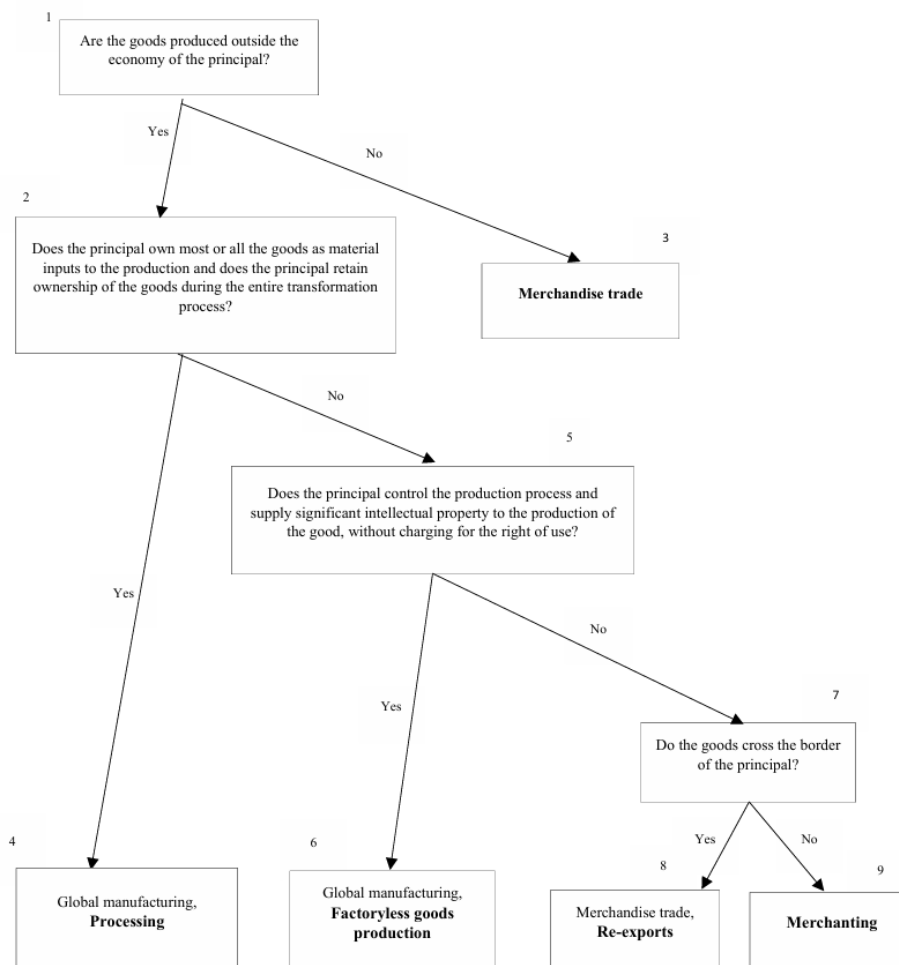
### **Context and objectives of this paper**

10. Two papers relating to Globalisation have previously been presented to NSCASE, based on draft guidance notes, with advice received from NSCASE in response.
11. The first was [valuation of trade](#), around a potential move to invoice value as its basis. The current status is that ONS is discussing a workshop with HMRC, to investigate the quality of invoice value data in customs declarations returns. Note: a change in valuation of trade is not a BPM7 requirement and will not be adopted prior to BPM8.
12. The second paper related to Factoryless Goods Producers (FGPs) and categorisation of merchanting of services. NSCASE members provided useful points to consider and requested clearer details and examples as a follow up. This paper provides that detail for FGPs, based on BPM7 and 2025 SNA chapters, rather than on the Guidance Note GN2, as was the case in the first paper.
13. The previous paper is appended. Readers should note that the paper stated treatment of FGPs as merchanting was specified in BPM6 but that was not the case. Further, the paper stated that current practice is to treat FGP activity as merchanting, which reflected the theoretical balance at that point in time, whereas this paper clarifies the approach to FGPs and the greater prominence of treatment as global manufacturing. The request from NSCASE from the previous meeting was to aim to: a) provide worked examples and b) explore the geographical impacts of Brexit and the impacts of Brexit and the Irish Border and the potential effect on the status of FGPs. This paper explains why we are unable to provide indications of impacts on statistics but surmises the types of change in trade statistics that future access to improved globalisation data would have.
14. The October 2023 paper outlined that ONS was planning to review, ahead of Blue Book 2025, its processing system to facilitate reporting of negative exports for merchanting. This need was based on information from existing globalisation work. Because ONS's focus is now on developing aggregate statistics under a likely manufacturing basis based on a new, robust, data source, this driver is deemed less important. A review may still take place (to understand if this need will occur within non-globalisation merchanting values).
15. We request feedback from NSCASE on our proposed approach to recording identified FGPs, and any other aspect of this paper, to help support our development of a globalisation statistics strategy.

## What are FGPs?

16. FGPs are one type of global manufacturing arrangement. They can be described as when a principal in country A provides IPP and controls production of goods in country B, but the contractor in country B purchases and holds economic ownership for the materials used in their production.
17. They are one form of five global manufacturing and distribution arrangements defined in BPM7/SNA2025, alongside merchandise trade, processing, re-exports and merchenting. The BPM7/SNA2025 chapter on globalisation includes the following decision tree to support identification by statistics compilers.

Figure 23.1. Global manufacturing and distribution arrangements decision tree

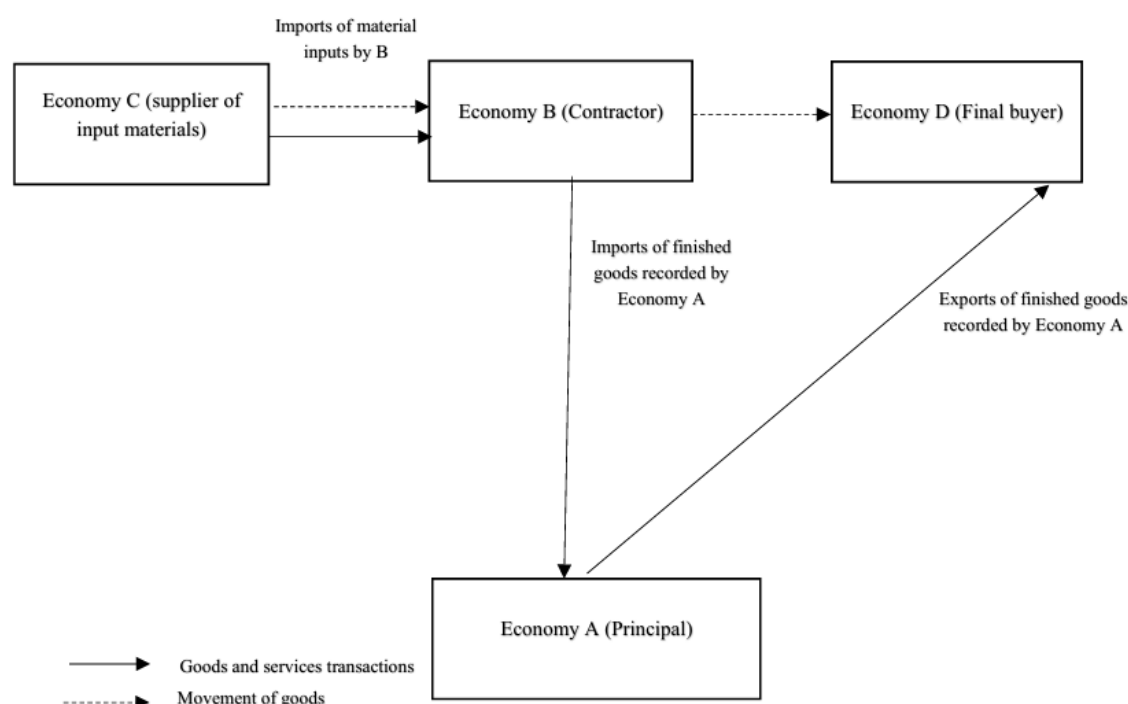


## International standards for treating FGPs in the national accounts

18. Currently, the standards for handling FGPs are specified less formally than will be the case going forward. Because FGPs were not prominent internationally at the time when BPM6 was developed, the current BPM and SNA international manuals do not lay out how to handle them. Instead, subsequent to BPM6, a way to treat them was developed in the UNECE [Guide to Measuring Global Production](#) (GMGP). However, in the UK at least, implementation has not been water-tight against that guide.

19. The guidance in the GMGP is to treat FGPs as *merchanting* when producing national accounts statistics.
20. The new international manuals – BPM7 and SNA2025 - specifically lay out that FGPs need to be treated as *global manufacturing* rather than as merchanting. The specifics in the new Globalisation chapter align with those in the Guidance note “Merchanting and Factoryless Goods Producers; Clarifying Negative Exports in Merchanting; and Merchanting of Services” Guidance Note C.4 (International Monetary Fund, 2021), which was the basis of the previous paper presented to NSCASE.
21. The new international manuals contain the following two specifics:
  - i. To recategorize FGP transactions as manufacturing (and therefore merchandise trade) rather than the current treatment which is under wholesale/merchanting.
  - ii. And, by default associated with moving from merchanting categorisation, the international guidance is to record FGP transactions as gross rather than in net terms.
22. The handling of simple FGP activity is summarised in figure 23.3 of the BPM7/2025 SNA chapter on globalisation:

Figure 23.3. Factoryless goods producer arrangement

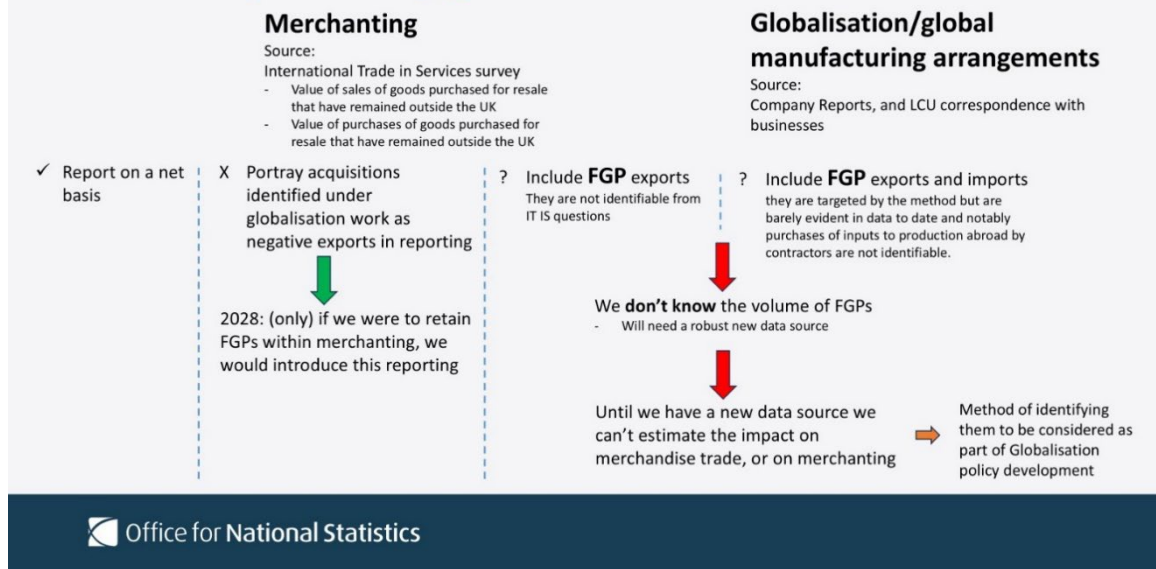


Notes: The principal in Economy A supplies the design specifications but outsources the acquisition of the material inputs and the manufacturing to a contractor in Economy B. The contractor acquires the material inputs from Economy C. The contractor sells the finished goods to the principal at a price that includes the cost of the material inputs plus the manufacturing costs. The goods are then sold to the final buyer in Economy D at a price that will further reflect the input of the design specification by the principal. The final goods may be shipped directly from Economy B to Economy D without passing through Economy A. There are variations of factoryless goods production. Material inputs may also be sourced from Economy A, Economy B, or Economy D. Furthermore, the principal may source the material inputs and sell them via merchanting to the contractor. The key aspect is that the contractor takes ownership of the material inputs. Finished goods may also be sold to Economy A, Economy B, or Economy C.

**How ONS currently captures and reports FGP activities, and what the impact of a move from treatment as merchanting to global production is likely to be**

23. Until recent years, ONS's only collection of data relating to FGP was non-specific, in the form of any information on FGP activities that companies may have given in response to the merchanting questions and/or manufacturing, maintenance and on-site processing questions on the International Trade in Services survey. These questions have no guidance on whether to include FGP activity, meaning that any FGP information that companies report is not identifiable. This was not a problem because the concept of FGPs was not well formed and there was no reporting of FGP activity.
24. However, in response to the growing prominence of globalisation in manufacturing and distribution arrangements, ONS formed its Large Case Unit (in 2019) and subsequently a globalisation team. Their work on understanding complex global arrangements, conducted to date among a small number of multinational enterprises, includes focus on FGPs and toll manufacturing (processing arrangements), which they handle on a **global manufacturing basis**, as per the BPM7/2025 SNA standards. The globalisation team has produced and implemented initial [adjustments to national accounts statistics](#) for global manufacturing arrangements (including FGPs) within those businesses, with more businesses to follow in Blue Book/Pink Book in 2025.
25. The initial adjustments have been in line with current guidance, mainly reclassifying toll processors and limited FGP activity, identifying additional imports and exports due to activities within the UK where economic ownership changes but goods don't cross the UK border, trade activities outside the UK where economic ownership has changed, and identifying additional merchanting.
26. Only a very small number of FGPs have been identified in the globalisation work conducted to date, meaning that, although some adjustments to the Trade estimates have been made, this source also does not represent a robust understanding of the activities of FGPs.
27. The current ONS position for capturing FGP activity, and its relationship with merchanting is summarised in the Annex of this paper, and in Figure 3.

Figure 3: Because FGPs are not evident in our statistics yet, we don't know what the impact of changing treatment will be.



28. As a result of details in the above, ONS does not have an understanding of the likely aggregate prevalence or value of FGP activities. This means that we are unable to provide an indication of the expected impact of moving from inclusion of any reported FGP activity within merchandising, to global manufacturing.

29. What we can surmise is that:

- There may be an unknown decrease in merchandising estimates due to removal of FGP activities once they are identified.
- There will be an unknown increase in trade in services estimates when global production arrangements, excluding FGPs, are measured in volume.
- There will be a reduction in goods imports and exports to remove goods identified as being sent abroad for processing, but there will be an increase in goods imports and exports due to the change in economic ownership of goods during the FGP chain.
- There will be an increase in both imports and exports of goods, due to current ITIS methods not being able to capture goods that are bought and sold abroad.
- These impacts will affect trade with different partner countries by differing amounts, depending on MNE structures and other UK companies' interactions with companies in other countries. However, this profile is not yet clear, either.

### What ONS is planning in order to facilitate our reporting of merchandising and FGPs aligned to the international standards

30. A new strategy for ONS globalisation statistics is being sought, with activities due to take place this year to define it. This will facilitate actions and decisions around identifying a new data source.

31. In the October 2023 paper we outlined that changes to merchandising reporting would be made in 2025. This was driven by findings from the Large Case Unit for some companies involved in FGP relationships. The work has been delayed because the ONS globalisation strategy is to be developed. Although we have a tentative date of 2028 for the work, we do not expect to conduct it for

globalisation purposes, because of our objective of finding a new, comprehensive data source. Questioning from NSCASE was useful in this consideration.

32. In terms of finding new data sources to identify FGPs in volume, we are currently exploring Nature of Transaction (NoT) codes with HM Revenue and Customs (HMRC). We know that many other countries utilise these codes for identifying global manufacturing patterns, but their usability depends on how accurately traders or their agents complete them. In addition, we are exploring potential to add questions to the future Annual Business Survey. However, neither is clear at this point. We note use of web scraping by Economic Statistics Centre of Excellence (ESCoE) in their work and this might be another option to explore, although the ESCoE work was only able to identify global manufacturing activity and not FGPs specifically.

### **Should ONS continue to align to global manufacturing treatment of FGPs?**

33. Option 1 would be for ONS to refocus its treatment of identified FGPs, to be merchanting, in line with the current loose international guidelines, which will be replaced with formal BPM7/2025 SNA international standards. We struggle to see any benefits from this approach, especially as existing trade estimates don't include comprehensive estimates of FGP activities, and even the current data source is not designed for this purpose and would need a major overhaul
34. Option 2 is to follow the BPM7/2025 SNA standards and continue our globalisation team's approach of treating FGPs as global manufacturing. Tentative feedback from NSCASE in October 2023 was that this seemed the appropriate route. ONS strongly agrees because of benefits: a) consistency with other countries' approaches, which is extremely important for helping to reduce asymmetries between countries' statistics, b) the natural fit from an economics point of view of treating FGPs as being involved in manufacturing, c) compliance with international standards and d) retaining consistency with the existing BPM7 manufacturing-based approach of the globalisation team. The October 2023 paper highlighted the strong support for moving to this standard from members of the IMF Committee on Balance of Payments Statistics and the Advisory Expert Group on National Accounts (AEG), and subsequent support in the later global consultation.

**Roger Smith, Global Trade and Investment, April 2025**

### **List of Annexes**

**Annex A      ONS treatment of goods manufacturing/distribution arrangements in its statistics**

## Annex A ONS treatment of goods manufacturing/distribution arrangements in its statistics

Type of manufacturing/distribution arrangement	How international guidance states to record (BPM6 unless specified)	What ONS currently does	BPM7/2025 SNA requirement	What ONS would need to change to comply with BPM7/2025 SNA
Merchandise trade where the good is produced in the principal's resident country	Record as imports and exports when they change economic ownership between a country's residents and non-residents. This is typically when goods cross the border – meaning International Merchandise Trade Statistics (IMTS) are usually the main data source, but adjustments are required.	We comply <b>Source of data:</b> HMRC customs data (the basis of IMTS statistics), supplemented with some additional sources to report accurate statistics for non-monetary gold, ships, repairs to aircraft, goods procured in ports and smuggling.	Unchanged except that Inverse merchanting (where country B buys from country A and then sells to country A) needs to be included under Merchandise trade in both directions in country A reporting.	<b>Source of data/Identifying cases:</b> The ONS globalisation team will investigate a method for identifying the inverse merchanting activity. It is not collected in ITIS, which is the source for current merchanting information. <b>Expected impact:</b> Adding in Inverse merchanting will increase trade in both directions, but we don't understand the impact/magnitude yet.
Processing arrangement (the good is produced abroad but the principal controls the process and owns some or	<b>Treatment:</b> The UNECE Guide to Measuring Global production (GMGP) provides a typology.  The typology specifies goods sent abroad for	<b>Treatment:</b> Identified fees from the contractor abroad are recorded as an import of services. Any input goods sourced abroad are recorded as goods imports. Sale of goods to a foreign entity is an export of goods	<b>Treatment:</b> Unchanged from now.  <b>Reporting:</b> Add in reporting 'of which: Goods traded within a global manufacturing arrangement' within total imports under	<b>Treatment:</b> Unchanged from now  <b>Source of data/Identifying cases:</b> In order to produce comprehensive estimates, we need a robust data source, including differentiation of Processing arrangements



<p>all of the input materials. Subsequent sale of goods to non-principal countries are then to be recorded as exports from the principal)</p>	<p>processing, which is a category that's reported in Balance of Payments.</p> <ul style="list-style-type: none"> <li>- Goods sent for processing are removed from Merchandise exports</li> <li>- Purchases of inputs to processing by the contractor are imports for the principal's country</li> <li>- Processing fee by the contractor is a services import by the principal.</li> <li>- Final sale of goods abroad is an export for the principal.</li> </ul>	<p><b>Source of data/Identifying cases:</b> For goods, the ONS Globalisation team references company reports and engages with the company via the Large Case Unit (LCU). This is the only direct data source that we have (reference to some other ONS data can provide guidance but can't provide actual estimates).</p> <p>It facilitates creating estimates for goods sent abroad for processing and for final sales abroad, but not for purchases of processing inputs purchased by the contractor. This needs to be included in our statistics, as defined in point 23.25 (b) of the new Globalisation chapter.</p> <p>For services imports (processing fee by the contractor) we utilise ITIS data, within constraints posed by sample size and non-coverage of non-resident VAT traders</p> <p><b>Reporting:</b> Primarily included under 'Goods sent abroad for processing', with the reported</p>	<p>Total Merchandise Trade.</p>	<p>from FGPs (necessary because the former is an import of services from the contractor, whereas the latter is an import of goods from the contractor).</p> <p><b>Reporting:</b> Include in the 'of which' in Total Merchandise Trade.</p>
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		value being used to adjust IMTS estimates.		
Factoryless Goods Production (the principal provides the IPP/marketing services and controls the production process but doesn't provide/own production material inputs)	<p><b>Treatment:</b> Not specified in BPM6. But the UNECE Guide to Measuring Global production (GMGP) provides a typology.</p> <p>This states (para 2.45) – based on ISIC Rev.4 recommendations - that FGPs for the Principal should typically be treated as merchanting, with any payment for goods input by the contractor being recorded as a negative export. However, the value of the IPP input should be considered differently than in a standard merchanting arrangement, resulting in a smaller negative export value</p>	<p><b>Source of data/Identifying cases:</b> The ONS Globalisation team is in early stages and is addressing using company reports and liaising with companies via the LCU. There are no other data sources (other than some ONS data which can provide clues). i.e. as per processing arrangements.</p> <p><b>Treatment:</b> In limited cases where FGPs have been identified, we don't treat them as merchanting.</p> <p>Separately, if any companies provide any FGP information to ITIS questions we don't isolate it.</p> <p><b>Reporting:</b> We report those activities of FGPs, that we identify from the globalisation work, under merchandise trade on an overall 'merchandise' import and export basis.</p>	<p><b>Treatment:</b> FGPs will be treated as manufacturing/general merchandise trade, so that all input goods from the contractor country are recorded as goods imports; all subsequent exports are recorded as goods exports.</p> <p><b>Reporting:</b> Include in 'of which: Goods traded within a global manufacturing arrangement' within total imports under Total Merchandise Trade.</p>	<p><b>Source of data/Identifying cases:</b> In order to publish estimates for FGPs in volume, we will need a way to identify FGPs, either from surveys or HMRC data (NoT codes). We note that ESCoE have previously done some work and found that web scraping could identify contract manufacturers (but couldn't identify FGPs within this).</p> <p><b>Treatment:</b> Put in place – in volume - the globalisation team's approach of adding in the purchase from the non-UK entity as an import and any subsequent sale of final product to an entity abroad, as an export. Add an adjustment to the IMTS data to record the contractually-agreed value of the finished good.</p> <p><b>Reporting:</b> Include in the 'of which' in Total trade.</p>

	than under straight merchanding.			
Re-exports (where the principal physically imports a good and then re-exports it without notably altering it, i.e. the Harmonized System code, HS, is not changed)	Where possible (and in countries where re-exports are significant), record as an 'of which' item within general merchandise	<p><b>Identifying cases:</b> We would need to work with HMRC to confirm a method</p> <p><b>Treatment:</b> We don't report as 'of which', as much of these goods won't have come into general circulation</p> <p><b>Reporting:</b> Included in Merchandise trade imports and exports. However, we do not record as an 'of which' item within general merchandise (as our values are not substantial).</p>	<p>Unchanged, i.e.</p> <p><b>Reporting:</b> Where possible, Report as 'of which: Re-exports' within total imports under Total Merchandise Trade. We don't do this.</p>	No action required
Merchandising (where the principal buys and then sells goods abroad without it entering the economy)	<p>Record on a net exports basis, including negative exports.</p> <p>In trade terms, all is recorded under exports and not imports, and all under Goods, with nothing in Services.</p>	We comply in principle, as this value (calculated from questions included in ITIS) is added to the IMTS exports value, and is shown in Pink Book Table 2.2.	Unchanged	No action required specifically for merchants. However, action needs to be taken to ensure that no FGP activity is included in response to Merchandising questions.

## References

NSCASE(23)27 Globalisation Merchanting and Factoryless Producers paper, October 2023

[https://uksa.statisticsauthority.gov.uk/wp-content/uploads/2023/11/NSCASE2327\\_Globalisation\\_Merchanting\\_and\\_Factoryless\\_Producers.pdf](https://uksa.statisticsauthority.gov.uk/wp-content/uploads/2023/11/NSCASE2327_Globalisation_Merchanting_and_Factoryless_Producers.pdf)

Globalisation future subtopics and valuation of trade [https://uksa.statisticsauthority.gov.uk/wp-content/uploads/2023/08/NSCASE2323\\_Globalisation\\_future\\_subtopics\\_and\\_valuation\\_of\\_TiG.pdf](https://uksa.statisticsauthority.gov.uk/wp-content/uploads/2023/08/NSCASE2323_Globalisation_future_subtopics_and_valuation_of_TiG.pdf)

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[https://unstats.un.org/unsd/nationalaccount/aeg/2021/M17/M17\\_AEG\\_BOPCOM\\_C4\\_Outcome\\_Merchanting\\_Factoryless\\_Producers.pdf](https://unstats.un.org/unsd/nationalaccount/aeg/2021/M17/M17_AEG_BOPCOM_C4_Outcome_Merchanting_Factoryless_Producers.pdf)

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