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Early Warning System - Case 14

Automotive manufacturer

Final methodological assessment - prepared by the EWS secretariat with the approval of relevant EWS network members

Based on information available in June 2020

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Background

In December 2018, the EWS was informed that automotive manufacturer X in country A had expanded its manufacturing activity into EU member states B and C via two different global manufacturing arrangements. The description of the business models is based on information provided by the EWS correspondents.

Toll Processing in country B

In late 2018 company Y, a subsidiary of X, opened a new manufacturing facility in country B. At this time X started a toll processing agreement with Y. X owns all the inventory and supplies it to Y, and X retains full economic ownership throughout the manufacturing process at the plant, with the finished vehicles being sold worldwide. Y also supplies other services to X, such as engineering and R&D.

The toll processing in country B fits the description of goods sent abroad for processing, see ESA 2010 para. 18.33 to 18.37. The output of the supplier (company Y) should then be recorded as a manufacturing service, exported to the principal. The principal (X) records imports of the manufacturing service and output of manufacturing of goods.

The recording in the statistics of both countries is in line with this.

Contract Manufacturing in country C

During 2017, company X entered into a contract agreement with company Z based in country C. Z is an established company that also produces vehicles for other companies.

X owns all the intellectual property assets (IPP) of the cars. X manufactures the engines, source and purchase all key raw materials, they then sell these materials to Z at market price in order for Z to assemble the vehicles. X does not employee any of the staff, nor does it own any of the equipment used at Z's manufacturing plant, and Z is responsible for all the operations and costs. X buys the fully assembled vehicles from Z and sells them across the world.

The contract manufacturing in country C differs from the arrangement with country B, since Z buys raw materials and engines from X and sells the assembled cars to X. The assembled cars can be seen as an intermediate product, with a value that reflects the parts and assembly, but not the value of the IPP owned by X. The value of the IPP is added when X sells the cars. This way of recording is mentioned in the UNECE Guide to Measuring Global Production from 2015, see *An alternative view on factoryless goods producers* in chapter 2.

The recording in the statistics of both countries is in line with this.