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Working paper No. 7: Recording imports and exports of goods on the basis of transfer of ownership - Eurostat's Task Force on goods sent abroad for processing

Outline of Chapter 7

Recording imports and exports of goods on the basis of transfer of ownership: Eurostat's Task Force on goods sent abroad for processing

- *Work of the Eurostat Task Force*
- *Main consequences identified by the Task Force*
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Work of the Eurostat Task Force on goods sent abroad for processing

Directors of Macroeconomic Statistics agreed that Eurostat set up a Task Force on goods for processing in 2011.

The main objectives of the Task Force were:

- to study the main consequences of the implementation of the new treatment of goods sent abroad in ESA 2010;*
- to identify the need for new data sources;*
- to promote the exchange of experiences related to goods for processing;*

Work of the Eurostat Task Force on goods sent abroad for processing

The main objectives of the Task Force were:

- *to propose some practical solutions to the main difficulties encountered;*
- *to examine the links with quasi-transit trade, global manufacturing and merchanting;*
- *to address the links between national accounts and balance of payments statistics.*

Main consequences identified by the Eurostat Task Force

- *A major difficulty is lack of methodological consistency between balance of payments, national accounts and business accounting on the one hand and IMTS on the other hand.*
- *For supply-use tables there is a need of breakdown by products.*

Main consequences identified by the Eurostat Task Force

- *Structural business surveys are considered by delegates as an adequate source for the calculation of the processing fees.*
- *Questions on processing fees.*

Main consequences identified by the Eurostat Task Force

- ***Case studies and discussions during the Task Force meetings show that to elaborate national accounts figures for output and value added of a sufficient quality, and following the principles in the ESA, it is necessary to ask the reporting population of enterprises for more information.***

Main consequences identified by the Eurostat Task Force

- *For case studies for countries outside the territory of the European Union:*
 - 'How will the Statistical Adjustment on Manufacturing Services on Physical Inputs Owned by Others Affect China's BOP Statistics' .
 - 'Goods for processing in Mexico: The 'Maquiladora' Industry Program and its usefulness to identify goods for processing until 2006.

Main consequences identified by the Eurostat Task Force

- *Profiling units already established by national statistical institutes to ensure that transactions of multinational enterprises including goods for processing are treated consistently across all areas of macroeconomic statistics.*

Main consequences identified by the Eurostat Task Force

- *At the same time the Eurostat Task Force acknowledges that it will be difficult for compilers to increase the burden on the reporting population, reflecting current policy of non-excessive burden on respondents.*
- *Replacing the flow of goods with service fees will change technical input-output coefficients in supply-use tables and input-output tables.*

Main consequences identified by the Task Force

- *Evidence of underestimation of exports of goods for processing. Data show that some EU Member States are inward processing countries, which is in contradiction to the economic reality.*
- *A breakdown of processing fees according to Classification of Products by Activity (CPA) is required.*
- *A 4-digit-level of breakdown of processing fees according to CPA classification should be sought.*

Recommendations of the Task Force

R1: Principle of ownership as key point for goods for processing

- *The key point is the principle of no change in ownership, when deciding to classify the transactions as goods for processing.*
- *The extent of the physical transformation of a product was considered as less important.*

R1: Principle of ownership as key point for goods for processing

Principal's activities considered as merchandising:

- *Principal is fully charged for final product and processor takes full risk and responsibilities for own operations.*
- *Principal contributes only a 'logo' for a car or small quantity of additional materials for processing.*

R2: 'Nature of transaction' system for identifying the processing

- *Nature of transaction system promising to allow - to some extent - identifying transactions in goods for processing.*
- *Removing these transactions from IMTS and replacing by processing fees when preparing national accounts and balance of payments statistics.*

R2: 'Nature of transaction' system for identifying the processing

- *In addition, direct reporting (e.g. balance of payments surveys, international trade in services questionnaires) is needed to get information on goods sold abroad after processing and on inputs purchased by the principal in foreign countries intended for processing abroad.*

R2: 'Nature of transaction' system for identifying the processing

- *Recording of exports and imports of goods in the BOP and NA it is necessary to adjust the IMTS data before its application in the supply-use tables:*
- *Outward processing:*
 - *Values of exports for outward processing (cross-border movements of goods without change of economic ownership).*
 - *Values of re-imports after outward processing (cross-border movements of goods without change of economic ownership).*

R2: 'Nature of transaction' system for identifying the processing

- ***Outward processing:***
 - ***Sales revenues related to goods produced abroad and sold and transported directly to non-resident customers (goods never cross the national border).***
 - ***Value of raw materials (goods to be processed) paid for by domestic principal units to non-resident suppliers, used in outward processing (goods never cross the national border).***

R2: 'Nature of transaction' system for identifying the processing

- ***Inward processing***
 - ***Export value related to goods sent abroad after inward processing (cross-border movements of goods without change of economic ownership).***
 - ***Import value related to goods sent from non-resident units to be processed by domestic suppliers (cross-border movements of goods without change of economic ownership).***
- ***In addition, exports and imports of processing fees must be calculated.***

R3: Flexibility of data sources

- *Flexibility needed in the use of data sources. Practical guidance in the new manual on implementation should help to ensure comparability, completeness and reliability of data.*
- *Applying data sources for the compilation of goods for processing with broad breakdown by product and at least annual frequency.*

R3: Flexibility of data sources

- ***§ 3.132 ESA 95: Imports and exports of goods occur when there are changes of ownership of goods between residents and non-residents.***
- ***§ 3.133(c) ESA 95: Goods for significant processing to order or repair are recorded both in imports and exports although no change of ownership occurs.***
- ***A change of ownership is imputed (gross principle) under ESA 95.***

R3: Flexibility of data sources

- *Current treatment: import/export of goods for processing, after processing export/ import of goods with processing fee.*
- *ESA 2010 § 18.33: registration of only import/export of processing fees (rule of change of ownership).*
- *ESA 2010 § 18.34: this service is recorded in the national accounts.*

R3: Flexibility of data sources

- *The non-imputation of the change of ownership principle requires removing goods for processing from customs data and to align them with annual surveys on production.*

R3: Flexibility of data sources

- *National statistical institutes need to continue to gather information on goods sent abroad for processing.*
- *Reconciliation tables of IMTS and the domestic system of balance of payments and business surveys.*
- *Explaining discrepancies between the IMTS and national accounts and balance of payments.*

R4: Strengthening cooperation and exchange of experiences

- ***Close cooperation and exchange of experiences between national statistical institutes and central banks.***
- ***Establishment of 'large and complex cases units' at the national statistical institutes as far as possible.***
- ***International exchange of experiences in the area of goods for processing.***

R5: Activities of non-residents registered for VAT

- *Conceptual and measurement challenges shown in case studies presented on VAT registered entities without physical existence.*
- *Distortion in data and imposed important changes on national accounts and balance of payments.*

R5: Activities of non-residents registered for VAT

- ***Close cooperation on a bilateral level between national compilers with regard to multinationals operating VAT traders.***
- ***Analysis at a company level using business accounting. Link between trade and business data.***
- ***International exchange of micro-data and mirror comparisons for large companies.***

R6: Development of price deflators for processing fees

- *Since the price of goods processed and the price for processing fees will most likely differ, the Eurostat Task Force recommends the development of price deflators for processing fees.*

R7: Areas for future work

- *Development of operational criteria to distinguish between processing and merchandising, as well as other forms of global manufacturing, including factory-less goods producers.*

Next steps

- ***Draft Manual on goods sent abroad for processing to be presented at GNIC of 24-25 April 2013 and NAWG of 22-23 May 2013.***

The background of the slide is the European Union flag, featuring a blue field with twelve five-pointed gold stars arranged in a circle. The flag is shown with a slight wave, giving it a three-dimensional appearance.

***Thank you for
your kind attention***

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